HOW GREMLINS OPENED THE DOOR FOR PATENT TROLLS AT THE INTERNATIONAL TRADE COMMISSION:

THE ITC SUBVERTS ITS OWN MISSION BY TURNING LEGAL COERCION INTO A "DOMESTIC INDUSTRY" AND PUNISHING PRODUCTIVE AMERICAN COMPANIES

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The International Trade Commission ("ITC") was originally designed to protect American industries from foreign companies and governments engaged in unfair trade practices. But when Congress amended the trade statutes in 1988 to close a small loophole regarding copyright infringement, it inadvertently turned the ITC inside out, transforming it into a haven for so-called "patent trolls," entities who produce and sell nothing themselves, but instead buy patents of questionable validity for the sole purpose of exploiting dysfunctions in the patent dispute system to coerce money settlements from productive American companies. Despite producing and selling nothing, patent trolls have been deemed "domestic industries" under the ITC's precedents. The ITC's rules and procedures include many of the dysfunctions of the civil justice system, but those dysfunctions are compounded by the ITC's in rem jurisdiction that diminishes protections for persons, and by the ITC's expedited administrative procedures that allow for only one blunderbuss remedy that grossly mismeasures any real injury. The ITC's rules disallow the full airing of arguments, and bypass the federal rules of evidence and procedure, constitutional standing rules, certain patent infringement defenses, and even the Patent Trial and Appeal Board ("PTAB"), the ultimate executive branch authority on patent validity. The ITC, by failing to defer to the PTAB, perpetuates and rewards unjust monopolies in the form of invalid patents, in direct violation of the fair-trade principles it was originally created to uphold.

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INTRODUCTION

Innovation drives the progress of civilization, and patent law governs the rules for profiting from innovation in America. Yet when the rules of patent disputes come to operate in ways that reward wholly unproductive entities at the expense of successful American enterprises, the law comes to inhibit innovation and reverse progress. Today, the International Trade Commission ("ITC"), a once obscure bureaucracy,[1] created to protect American businesses from unfair trade practices committed by foreign companies, has become a haven for so-called "patent trolls" and their third-party funders, entities whose business model is based not on producing or selling anything, but on the exploitation of the dysfunctions of the American patent resolution.[2] The Patent Trial and Appeal Board ("PTAB") has gone a long way in preventing patent trolls from exploiting the assertion of invalid patents by providing a means of invalidating patents that do not meet the statutory criteria. But one obscure bureaucracy, the International Trade Commission, allows bypassing the PTAB, making it a safe harbor for patent trolls.

This Article is the story of the ITC's transformation from a forum to protect American companies from foreign entities that commit unfair trade practices to a den for foreign and domestic patent trolls,

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[1] *See* TOM M. SCHAUMBERG, A LAWYER'S GUIDE TO SECTION 337 INVESTIGATIONS BEFORE THE U.S. INTERNATIONAL TRADE COMMISSION, at ix (3rd ed. 2016) ("Once a backwater of intellectual property enforcement, Section 337 has become mainstream as imports have come to play an even more significant role in the U.S. economy."); Colleen V. Chien, *Protecting Domestic Industries at the ITC*, 28 SANTA CLARA COMPUT. & HIGH TECH. L.J. 169, 171–72 (2011) ("Once a specialized venue with limited jurisdiction, the ITC has come to hear many of the important patent law cases and increased its caseload five-fold over the past 15 years. Though only one of about 90 venues in which a United States patent infringement lawsuit can be initiated, the ITC heard nearly 15% of all patent trials in 2010.") (citations omitted).

[2] For a discussion of how patent trolls exploit dysfunctions in the U.S. civil justice system, see generally, Paul Taylor, *Disclosing High Roller Bankrolling in the Patent Litigation Casino: The Need to Regulate Third Party Litigation Financing,* 103 J. PAT. & TRADEMARK OFF. SOC'Y 21 (2023). The Framers of patent law in America also understood the meaning of "useful arts" in the Patent Clause to mean productive and commercializable manufacturing, the polar opposite of patent troll business models. *See generally*, Paul Taylor, *Anti-Monopoly & Pro-Commerce: The Original Frontier Spirit of Patent Law and Its Implications for Today*, 74 SYRACUSE L. REV. 59, 95–100 (2024).

who produce nothing but litigation, and can now use the ITC as a haven for leveraging unjust monopolies in the form of invalid patents to extract money settlements from innocent American companies, in direct contradiction to its founding mission.

I. THE ORIGINS OF THE INTERNATIONAL TRADE COMMISSION, AND ITS ORIGINAL MISSION

As far back as the Nation's Founding, James Madison understood that America under the new Constitution would consist of competing factions of economic interests, such that the public interest would inevitably be diluted when it came to federal policies. As Madison wrote in Federalist Paper No. 10:

> A landed interest, a manufacturing interest, a mercantile interest, a moneyed interest, with many lesser interests, grow up of necessity in civilized nations, and divide them into different classes, actuated by different sentiments and views. The regulation of these various and interfering interests forms the principal task of modern legislation, and involves the spirit of party and faction in the necessary and ordinary operations of the government.[3]

Madison goes on to describe that while, ideally, some pure understanding of justice would prevail in economic policy, in reality it is fallible legislators (and the bureaucrats working under them) who make the ultimate decisions:

> And what are the different classes of legislators but advocates and parties to the causes which they determine? Is a law proposed concerning private debts? It is a question to which the creditors are parties on one side and the debtors on the other. Justice ought to hold the balance between them. Yet the parties are, and must be, themselves the judges . . . .[4]

Madison then employs the specific example of trade policy:

> Shall domestic manufactures be encouraged, and in what degree, by restrictions on foreign manufactures? are questions which would be differently decided by the

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[3] THE FEDERALIST NO. 10 (James Madison).
[4] *Id.*

> landed and the manufacturing classes, and probably by neither with a sole regard to justice and the public good.[5]

As Madison concludes:

> It is in vain to say that enlightened statesmen will be able to adjust these clashing interests, and render them all subservient to the public good. Enlightened statesmen will not always be at the helm. Nor, in many cases, can such an adjustment be made at all without taking into view indirect and remote considerations, which will rarely prevail over the immediate interest which one party may find in disregarding the rights of another or the good of the whole.[6]

The ITC, and the precedents that govern it today, is a fascinating example of how, as Madison predicted, the immediate interests of certain parties (patent trolls and their third-party funders) can come to prevail over the rights of others and the good of the whole, incrementally over time, when legislators turn their attention elsewhere. Today, patent trolls and third-party funders of patent disputes have come to play a significant role at the ITC, with some 18% of its unfair trade practice investigations spurred by patent trolls in 2022, according to the ITC's own records.[7] How did this come to be?

As originally envisioned by its political backers, the entity that would later become the ITC (then called the United States Tariff Commission) was to be a body dedicated exclusively to factfinding and making recommendations to Congress. As John Dobson writes in *Two Centuries of Tariffs: The Background and Emergence of the U.S. International Trade Commission* (published by the ITC itself):

> [President Woodrow] Wilson's request to Congress in February 1916 envisioned a commission "as much as possible free from any strong prepossession in favor of any political policy and capable of looking at the whole economic situation of the country with a dispassionate and disinterested scrutiny." He proposed that the

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[5] *Id.*

[6] *Id.*

[7] *See Section 337 Statistics: Number of Section 337 Investigations Brought by NPEs (Updated Annually),* U.S. INT'L TRADE COMM'N, (Feb. 3, 2025), https://www.usitc.gov/intellectual_property/337_statistics_number_section_337_investigations.htm [https://perma.cc/KK5V-HDQQ] (defining "Category 2 NPEs" (non-practicing entities) as "[e]ntities that do not manufacture products that practice the asserted patents and whose business model primarily focuses on purchasing and asserting patents.").

> commission investigate the administration and fiscal effects of the customs laws, study the revenue aspects of the tariff structure and the conditions of competition that U.S. industries faced abroad, spot unfair trade practices and dumping, and conduct other, similar investigative functions. The President did not intend for the commission to make tariff policy. Instead, the body was to collect information of all sorts relating to international trade and to present it in a cogent, comprehensive manner to those congressional committees and administrative officials charged with the determination and execution of U.S. trade policy . . . . As primarily a factfinding agency, the Tariff Commission lacked any direct policymaking powers . . . . As Commissioner Thomas W. Page later noted, "When it created the commission, Congress intended to surrender no jot nor tittle of its own power to fix and to alter duties at its discretion. On the contrary, jealous care was taken both in drafting the act and perfecting it on the floor, to reserve in all aspects the unlimited initiative and control of Congress." . . . Through 1922 the bulk of the Commission's work lay in the realm of the collection and analysis of data.[8]

But the power of the ITC grew dramatically over the next century. In 1922, Congress gave the ITC additional investigative responsibilities, and also authorized the President to take direct action to exclude imported products that were being unfairly traded:

> The 1922 legislation gave the Commission additional investigative responsibilities. Sections 316 and 317 dealt with two other aspects of trade competition: unfair trade practices by importers and discrimination against U.S. exports by other countries. These sections authorized the President to raise tariff duties in retaliation against discrimination or to exclude imported products entirely if they were being unfairly traded. The act defined as unfair any practice, the effect or tendency of which was to destroy or substantially injure a U.S. industry or to restrain or monopolize trade and commerce in the United States . . . . After the completion of the hearings, the investigating team drew up a final report encompassing

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[8] JOHN M. DOBSON, TWO CENTURIES OF TARIFFS: THE BACKGROUND AND EMERGENCE OF THE U.S. INTERNATIONAL TRADE COMMISSION 87, 89, 92 (1976).

> all information gathered, and the Commissioners voted on a recommendation. The Commissioners then sent their recommendation along with supporting documents to the President for action.[9]

But according to contemporaneous critics, too much time tended to pass between the ITC's recommendations and presidential action:

> The great length of time that passed between the arrival at the Tariff Commission of an initial request for a change and the final Presidential proclamation profoundly disappointed those who had anticipated quick, responsive action under the flexible [statutory] provision. . . . [S]ome investigations [had] taken 5 years or more to complete.[10]

Charges of unduly slow efforts to address unfair trade continued for decades, until the law was changed in 1975:

> The Trade Act of 1974, which was not actually signed into law until January 3, 1975, represented the culmination of several years of intense debate and consideration. One result of this process was the renaming of the agency: the United States Tariff Commission became the United States International Trade Commission. . . . The new act also enlarged the Commission's responsibilities in the area of relief. Under [the previous version of] section 337, if the Commission found that unfair trade practices were injuring a domestic industry or restraining trade within the country, it could only recommend the exclusion of the offending articles to the President. The 1974 act amends this section to empower the Commission to order the exclusion on its own.[11]

As a result, the sole remedy at the ITC for unfair trade practices became the complete exclusion of allegedly illicit imports from the U.S. market. As Douglas Irwin writes in *Clashing Over Commerce*, a history of U.S. trade policy, the perceived need for speed at the ITC resulted in strict timetables for the resolution of disputes regarding unfair trade practices:

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[9] *Id.* at 95–96.
[10] *Id.* at 97.
[11] *Id.* at 125, 129–30.

> The legislation [the Trade Act of 1974] also specified a strict timetable for [case] disposition . . . The Tariff Commission was renamed the International Trade Commission (ITC) and now had to make an injury determination within six months of receiving [a] petition. If the injury was found, then the president would have sixty days to decide whether or not to grant the relief proposed by the ITC. Congress also tried to shift the default outcome to the granting of relief by mandating that the president "shall" provide the trade relief recommended by the ITC "unless he determines that provision of such relief is not in the national economic interest of the United States." . . . Congress also . . . made [the ITC] an independent agency, not part of the executive branch.[12]

However, the intended beneficiaries of these expedited remedial provisions remained domestic U.S. manufacturing industries. The legislation had long defined the entities covered by its protections as any "domestic industry,"[13] a term which was clearly understood to mean domestic manufacturing.[14] And that manufacturing had to be significant to warrant protection. The House Committee on Ways and Means provided the following explanation of the term "industry" as used in the legislation: "In cases involving the claims of U.S. patents, the patent must be exploited by *production* in the United States, and the industry in the United States generally consists of the domestic operations of the patent owner, his assignees and licensees devoted to such exploitation

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[12] DOUGLAS A. IRWIN, CLASHING OVER COMMERCE: A HISTORY OF US TRADE POLICY (MARKETS AND GOVERNMENTS IN ECONOMIC HISTORY) 553–54 (2022) (ebook).

[13] Tariff Act of 1922, ch. 356, § 316, 42 Stat. 858, *repealed by* Tariff Act of 1930, ch. 497, § 651(a)(1), 46 Stat. 590. The domestic industry requirement as it appeared in the Tariff Act of 1930 at Section 337(a) read as follows: "Unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale by the owner, importer, consignee, or agent of either, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry, or to restrain or monopolize trade and commerce in the United States, are declared unlawful, and when found by the President to exist shall be dealt with, in addition to any other provisions of law, as provided in this section." *See* Schaper Mfg. Co. v. Int'l Trade Comm'n, 717 F.2d 1368, 1369 n.1 (Fed. Cir. 1983).

[14] *See* Certain Airtight Cast-Iron Stoves, Inv. No. 337-TA69, USITC Pub. 1126 at 8–9 (Jan. 1981) (Final) ("At the time of the adoption of both sections [316 and 337], the dominant economic activity in the United States was manufacturing. Congress anticipated that the great majority of cases brought under section 337 would involve manufacturing industries.").

of the patent."[15] A demand for production before the provision could be applied reflected the same insistence on reasonable prospects for commercial production the framers of the patent laws themselves originally required for the granting of patents in the first place.[16]

But while the commercial production of patented products had long been the baseline for domestic industry under the trade statutes well into the 1980's, the emerging service sector economy, and its need for comparable protection from "unfair trade practices," spurred a deviation from traditional manufacturing requirements, as the ITC attempted to encompass service sector industries under its protections. As S. Alex Lasher writes:

> By the mid-1980s, the domestic industry requirement was far from clear, and the Commission struggled to define who could obtain relief under Section 337. On the one hand, certain Commission decisions reflected a growing awareness of the shift of American workers from manufacturing to the service sector. As a result, the Commission expanded the scope of "industry" to include non-manufacturing activities in the United States such as installation, repair, quality control, and packaging. Yet, other opinions revealed the Commission's desire to keep the "industry" requirement rooted in the origins of the statute. The Federal Circuit prophetically noted in *Schaper Mfg Co. v. U.S. In'l Trade Comm'n*, that only Congress could resolve this inconsistency, which it appeared to do several years later by passing the Omnibus Trade and Competitiveness Act of 1988.[17]

The Omnibus Trade and Competitiveness Act of 1988 was a comprehensive legislative overhaul of the federal international trade laws. But as is often the case, just a few words tucked into the thousand-page-plus bill came to dramatically alter the ITC, subverting its original

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[15] H.R. REP. NO. 93-571 at 78 (1973) (emphasis added).

[16] *See generally* Paul Taylor, *Anti-Monopoly and Pro-Commerce: The Original Frontier Spirit of American Patent Law and Its Implications for Today*, 74 SYRACUSE L. REV. 59 (2024).

[17] S. Alex Lasher, *The Evolution of the Domestic Industry Requirement in Section 337 Investigations Before the United States International Trade Commission*, 18 U. BALT. INTELL. PROP. L.J. 157, 165–66 (2010) ("If, as appellants suggest, present-day 'economic realities' call for a broader definition to protect American interests (apparently including many of today's importers) it is for Congress, not the courts or the Commission, to legislate that policy.")) (citing Schaper Mfg. Co. v. Int'l Trade Comm'n , 717 F.2d at 1373).

mission of protecting productive U.S. industries from unfair competition.

As it turned out, the economic concerns regarding the state of U.S. manufacturing that motivated the vast majority of the provisions included in the omnibus legislation were based on misperceptions.[18] As Irwin summarizes, "[legislative] proposals [including the 1988 Act] reflected Congress's searching for some means of relieving the trade pressures, given its inability to do anything directly about the strong dollar. Most members recognized that restricting imports would be a costly and ineffective way of addressing the trade deficit or reducing foreign competition."[19]

Indeed, as Irwin writes, some industries did not even face employment reductions in the 1980s, including the electronics industry that, as explained later, has come to be especially hurt by the legislative amendments made in the 1988 Act.[20] Indeed, manufacturing itself did not generally suffer during the 1980s.[21]

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[18] *See* IRWIN, *supra* note 12, at 565 ("The combination of two powerful macroeconomic forces—a severe recession from 1979 to 1982 and the significant appreciation of the dollar against other currencies from 1980 to 1985—squeezed domestic producers of traded goods, particularly in manufacturing. The United States also began running large trade deficits, which became a symbol of the country's troubles with trade. The intensification of foreign competition meant that the political pressures for import restrictions increased dramatically. The economic recovery starting in 1983 and the fall in the value of the dollar starting in 1985 eventually helped relieve the pressure on producers of traded goods and enabled the import restraints to be removed by the early 1990s."). When the dollar is strong, it costs foreign purchasers more dollars to buy American goods, and so fewer American products are sold. *See*, *e.g.*, Rafael Nam, *A strong dollar is great news for most of us—but not everybody is a winner,* NAT'L PUB. RADIO (June 11, 2024), https://www.npr.org/2024/06/11/nx-s1-4990256/strong-dollar-overseas-travel-currency-exchange-rate [https://perma.cc/9GYA-VDTZ] ("[A] rising dollar doesn't lift all boats. Some exporters have been hit as the stronger domestic currency makes them less competitive in overseas markets.").

[19] IRWIN, *supra* note 12, at 601.

[20] *Id.* at 569 (noting that "employment in the transportation and electronics industries rose 350,000 over this period . . .").

[21] *Id.* ("Despite the difficulties for workers, overall manufacturing output continued to grow through most of this period. Even during the severe recession of 1979–82 when manufacturing employment fell 12 percent, manufacturing production fell just 4 percent. Conversely, in the 1983–89 expansion, manufacturing production grew 36 percent, but employment rose only 4 percent. Production and employment were no longer coupled with one another: productivity improvements enabled output to grow without new workers being hired. This was due to changes in the composition of manufacturing output (the expansion of technology and capital-intensive industries, and the relative decline of labor-intensive industries), as well as the general improvement in labor productivity due to new technology and equipment.").

As Irwin summarizes:

> [T]he overwhelming proportion of the declining share of manufacturing in the economy was due to non-trade factors, such as the shift in consumer demand from goods to services and the decline in the relative price of manufactured goods owing to rapid productivity growth.[22]

So, as it turned out, the trade policies of the 1980s did not even improve U.S. international competitiveness.[23] Yet even though the economic concerns motivating the Omnibus 1988 legislation were ultimately shown to be misguided, the intended beneficiaries of the legislation were still supposed to be productive American industries. In his support for legislation including additional trade restrictions in the 1980s, President Reagan made clear that his support was based on the

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[22] *Id.* at 570.

[23] *Id*. at 593, 612, 613, 619, 624 ("There was also little evidence that temporary trade protection helped protected industries adapt to the new world of global competition. In a report entitled "Has Trade Protection Revitalized Domestic Industries?" the CBO [Congressional Budget Office] concluded that "trade restraints have failed to achieve their primary objective of increasing the international competitiveness of the relevant industries." . . . [A]fter three years of work, the Omnibus Trade and Competitiveness Act of 1988 was completed in a form that the president could approve . . . At more than a thousand pages, the wide-ranging legislation made many incremental changes to the nation's trade laws. It reduced presidential discretion and expanded avenues for firms and workers to receive relief from imports in administrative trade cases . . . By this time, however, the enormous political pressures over trade that had marked the early- and mid-1980s had eased considerably. By 1987, the dollar had fallen back to its 1980 level, and exports were finally accelerating . . . The growth in exports and moderation of imports, combined with the long economic expansion that brought down the unemployment rate, relieved much of the pressure on traded-goods industries. As a result, pressures in Congress to address trade problems also began to dissipate . . . The continued depreciation of the dollar against other currencies . . . eventually succeeded in providing relief for industries competing against imports and exporters selling on the world market. From its February 1985 peak to the April 1988 trough, the real trade-weighted value of the dollar fell nearly 30 percent. As a result, export growth picked up, and import growth moderated. In fact, export-related industries accounted for half of the increase in manufacturing employment in 1987–88 before the economy slowed in 1989. The merchandise trade deficit peaked at $159 billion in 1987 and then fell over the next three years. With continued economic growth, these developments greatly eased protectionist pressures . . . By the early 1990s, concern about foreign unfair trade practices had diminished. Japan became yesterday's problem when it entered a prolonged economic slump; in the face of a stronger yen and a weaker economy, Japanese producers were no longer the competitive threat they had been a decade earlier.").

need to stem the unfair influence of *foreign governments* on *domestic companies*. As Irwin writes:

> On September 23, 1985. . . President Reagan . . . portrayed the United States as the victim of other countries' trade policies and spoke of the responsibilities that they had in maintaining an open trading system. As he put it . . . . "When governments permit counterfeiting or copying of American products, it is stealing our future, and it is no longer free trade. When governments assist their exporters in ways that violate international laws, then the playing field is no longer level, and there is no longer free trade. When governments subsidize industries for commercial advantage and underwrite costs, placing an unfair burden on competitors, that is not free trade." Therefore, the president continued, "we will take all the action that is necessary to pursue our rights and interests in international commerce under our laws . . . to see that other nations live up to their obligations and their trade agreements with us. I believe that if trade is not fair for all, then trade is free in name only. I will not stand by and watch American businesses fail because of unfair trading practices abroad. I will not stand by and watch American workers lose their jobs because other nations do not play by the rules."[24]

Yet today, as will be explained in this Article, the ITC's policies, changed through just a few words buried in the Omnibus legislation of 1988, have resulted in the opposite policy—namely, a policy weakening American companies at the hands of patent trolls (including those potentially funded by foreign entities through third party funding agreements).

II. HOW GREMLINS OPENED THE DOOR TO PATENT TROLLS AT THE ITC

Prior to 1988, Section 337 required that things more commonly indicating a "domestic industry" be present before the ITC could initiate an investigation,[25] with statements made during congressional debate

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[24] *Id.* at 606.

[25] *See* Certain Products with Gremlins Character Depictions, Inv. No. 337-TA-201 (Mar. 1986), reprinted in USITC Pub. 1815 [hereinafter Gremlins] (citing H.R. REP.

on the 1988 amendments that in order for a domestic industry to be protected under the federal trade statutes, a "patent must be exploited by production in the United States . . . [and] where unfair methods and acts have resulted in conceivable losses of sales, a tendency to substantially injure such industry has been established."[26] The Federal Circuit had reiterated that understanding, noting that domestic industry could only be found where the complainant engaged in activity that involved "either manufacture or production or servicing of the patented item . . . ."[27]

But then a few words in the Omnibus legislation of 1988 changed the course of the ITC's history. Those few words were a response to a perceived problem with copyright policy, not patent policy. The Warner Brothers film company had filed a complaint with the ITC regarding the unauthorized import of products that used depictions of Gremlin characters from its 1984 film *Gremlins*.[28] Warner Brothers sought to stop the importation of these items, which they claimed infringed their copyrights. Warner Brothers, which created the Gremlin characters, had an entire division dedicated to the licensing program, and had used it to negotiate licenses to various companies in the U.S. to produce products featuring those characters (so Warner Brothers did not directly manufacture the items themselves). The ITC, however, ruled against Warner Brothers,[29] finding that their licensing activities alone did not meet the "domestic industry" requirement under Section 337 of the Tariff Act of 1930, as that requirement traditionally necessitated a connection to domestic manufacturing or some other substantial industry-related investment, which Warner could not sufficiently demonstrate through licensing alone.[30] Warner Brothers and other similarly-situated companies subsequently lobbied Congress to change the law to protect its licensing interests. The result was that "licensing" was added to the criteria defining a "domestic industry" in

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NO. 93-571, at 78 (1973)) ("[T]he Commission has consistently defined the industry in section 337 cases to be the domestic production of the products covered by the intellectual property rights in question.").

[26] H.R. REP. NO. 93-571, at 76.

[27] *Schaper Mfg. Co. v. U.S. Int'l Trade Comm'n*, 717 F.2d 1371, 1371 (Fed. Cir. 1983). *See also Bio-Technology General Corp. v. Genentech, Inc*., 80 F.3d 1553 (Fed. Cir. 1996) ("The importance of commercial viability to the enforcement of patents was also recognized by Congress when it first granted the International Trade Commission . . . broader power to protect against patent infringement."); Trade Act of 1974, 19 U.S.C. §§ 2101–2497(b) (1975) (codified as amended at 19 U.S.C. § 1337).

[28] *See* Gremlins.

[29] Gremlins at 33.

[30] *Id.* at 912.

the Omnibus 1988 legislation in order to overturn the ITC's *Gremlins* decision.[31]

Shortly after the ITC's *Gremlins* decision, Representative Kastenmeier called for an amendment to Section 337 to "avoid unfortunate results which have occurred in some recent cases, such as Gremlins."[32] That amendment, was ultimately adopted in the 1988 legislation.[33]

Under this new Section 337(a)(3)(C), a complainant can satisfy the domestic industry requirement solely by relying on licensing activities[34] that relate to articles "protected by the patent," even if the complainant (or a licensee of the complainant) does not actually manufacture the products protected by the patent in the U.S.[35]

Still, the intent behind the 1988 amendments to Section 337 was to protect only those entities that, while not actively manufacturing, *contributed to the creation* of the idea behind the product. In the case of Warner Brothers in the Gremlin investigation, the company had created the Gremlins characters in the first place.[36] The other examples that appear in Section 337(a)(3)(C)'s legislative history as examples of entities that should not be disadvantaged for not practicing their patents were start-ups and universities.[37] In the examples Congress provided

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[31] *See* InterDigital Commc'ns, LLC v. Int'l Trade Comm'n, 690 F.3d 1318, 1329 (Fed. Cir. 2012) ("Congress added subparagraph (C) to section 337(a)(3) in 1988 to overrule earlier Commission decisions that had found that licensing alone did not constitute a domestic industry.").

[32] 132 Cong. R. H1782 (April 10, 1986).

[33] 19 U.S.C. §1337(a)(3) (emphasis added) ("[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, copyright, trademark, mask work, or design 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.").

[34] Because the three criteria of § 337(a)(3) are listed using the disjunctive term "or," the satisfaction of any one criteria will be sufficient to meet the domestic industry requirement. *See* Certain Variable Speed Wind Turbines and Components Thereof, Inv. No. 337-TA-376, USITC Pub. 3003 at 15 (Nov. 1996) (Final).

[35] *See* Certain Short-Wavelength Light Emitting Diodes, Laser Diodes and Prods. Containing Same, Inv. No. 337-TA-640, Order No. 16, 2008 ITC LEXIS 1041, at *29–30 (June 18, 2008) (Light Emitting Diodes I) ("The domestic industry requirement can be satisfied solely based on complainant investing a substantial amount of money in a licensing program to exploit the patent, even if complainant does not manufacture the product."); Certain Digital Processors and Digital Processing Sys., Components Thereof and Prods. Containing Same, Inv. No. 337-TA-559, Order No. 24 (ID, Public Version) at 84 (June 21, 2007).

[36] *See* Gremlins.

[37] *See* H.R. REP. NO. 100-40, pt. 1, at 157 (1987) ("This definition could . . . encompass universities and other intellectual property owners who engage in extensive licensing of their rights to manufacturers.").

regarding start-ups and universities, those entities themselves *came up with the concepts* that others may have ultimately coalesced into physical products. The Supreme Court itself has drawn on the same examples of start-ups and universities with specific reference to their active creation of intellectual property. In *eBay Inc. v. MercExchange, LLP*, the Supreme Court recognized that although start-ups and universities can create intellectual property, they usually license the intellectual property to others rather than manufacture the products themselves, stating that "For example, some patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents, rather than undertake efforts to secure the financing necessary to bring *their works* to market themselves."[38] (Patent trolls, of course, are not "self-made inventors," but rather purchasers of others' patents, not originators of the innovations behind the patents themselves.)

Yet as is often the case, the integrity of the illustrative examples in the legislative history diminished over time and there were those who presciently foresaw the potential for abuse in this new licensing language. At the hearings on the 1988 amendments, the ITC Trial Lawyers Association raised the concern that foreign companies would be able to use the new language at the ITC against U.S. companies that import goods after manufacturing them overseas.[39] At the same hearings, the Chair of the ITC herself, Paula Stern, stated her concerns regarding the proposed legislation.[40]

After Stern spoke those words, Representative Moorhead agreed with her, pointing back to the grounding example of the role universities

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[38] eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388, 393 (2006) (emphasis added).

[39] *See Comparing Major Trade Bills: Hearing on S. 490, S. 636, and H.R. 3 Before the S. Comm. on Fin.*, 100th Cong. 159 (1987), at 344, 347 (comments of the ITC Trial Lawyers Association) ("By proposing to eliminate the requirement of injury to an industry in the United States, the amendments seek to fundamentally alter the purpose for which Section 337 was enacted ... to protect an established or about to be established U.S. industry from harm.").

[40] *Hearings Before the Subcomm. on Courts, Civil Liberties, and the Admin. of Just. of the H. Comm. on the Judiciary*, 99th Cong. 551 (1986), at 5–6 ("I am concerned that the proposed legislation can be read to elevate the protection of intellectual property rights—regardless of whether they are ultimately commercially exploited—over other important public interest goals. After all, society benefits even more from the fruits of the inventor when intellectual property rights are exploited through the efforts and capital of the entrepreneur. It is this production-related activity which in turn spawns economic growth. Society does not benefit directly from protecting a particular invention unless that idea is ultimately exploited. I therefore believe that to be consistent with the public-interest purpose of section 337, the domestic industry and injury standard should be maintained, and should continue to require more than mere ownership of a U.S. intellectual property right.").

can play in producing innovation.[41] His statement dovetailed with that of Senator Lautenberg, who said during debate on the 1988 amendments, that "[f]or those who make substantial investments in research, there should be a remedy. For those who make substantial investments in the *creation* of intellectual property and *then* license creations, there should be a remedy."[42] The emphasis was on protecting only those entities that had an active role in *creating* the intellectual property prior to licensing it.

Over the following two decades, it became widely recognized—from individual companies, to the Federal Trade Commission ("FTC"), and to Justices on the U.S. Supreme Court—that new entities commonly referred to as "patent trolls" could exploit *purchased* patents to coerce others into licensing, and also shoehorn themselves into the "domestic industry" category without contributing anything at all to the creation of the intellectual property.[43]

In 2003, the FTC issued a report following a series of listening sessions for concerned stakeholders.[44]

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[41] *Id*. at 70. (including Rep. Moorhead statement in support of the 1988 amendments) ("The university really does not have a very good remedy anyplace at the present time.").

[42] 132 CONG. REC. S1782 (daily ed. Apr. 10, 1986) (statement of Sen. Lautenberg) (emphasis added).

[43] eBay, Inc. v. MercExchange, LLP, 547 U.S. 388, 393 (2006) (Kennedy, Stevens, Souter, Breyer, J.J., concurring) ("An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.") (citation omitted). The White House under President Obama went on to explain that "innovators continue to face challenges from Patent Assertion Entities (PAEs), companies that, in the President's words 'don't actually produce anything themselves,' and instead develop a business model 'to essentially leverage and hijack somebody else's idea and see if they can extort some money out of them.' These entities are commonly known as 'patent trolls.'"); *FACT SHEET: White House Task Force on High-Tech Patent Issues*, THE WHITE HOUSE, (June 4, 2013), [https://perma.cc/4EEG-4H9X].

[44] FED. TRADE COMM'N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY 41, (Oct. 2003) [hereinafter FTC Promote Innovation] (emphasis added) (citations omitted), https://www.ftc.gov/sites/default/files/documents/reports/promote-innovation-proper-balance-competition-and-patent-law-and-policy/innovationrpt.pdf; *see also id.* at 18 ("A collective action problem may frustrate business challenges to questionable patents. Instead of challenging a patent's validity, many firms may simply license it, because no single firm has the incentive to finance an expensive legal challenge that would benefit all of the affected firms, not just the challenger[]") *and id.* at 41 ("By seeking royalties below the cost of challenging a patent's validity, NPEs [non-practicing entities, or patent trolls] can obtain royalties on improperly granted patents. Royalties on improperly granted patents cause an inefficient allocation of society's resources and a transfer that 'encourages patenting and

In 2006, Justice Kennedy, in his influential concurring opinion in *eBay, Inc. v. MercExchange, LLP*, highlighted his concern that so-called "patent trolls" were "[a]n industry [that] has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees."[45] For such firms, he explained, "an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent."[46]

In 2009, in *In re Certain Stringed Musical Instruments and Components Thereof*, the ITC noted Floyd Rose Guitars suggestion complainants without a legitimate domestic industry could create a domestic industry by extracting respondents' settlements after unworthy complaints are filed.[47]

As the Congressional Research Service noted in 2012, patent trolls "settle the vast majority of their assertions" and these results may be attributable to uneven bargaining power.[48]

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discourages competition to a greater extent than is socially optimal.' One panelist observed that NPEs can use this same strategy to induce PPEs [patent practicing entities] to obtain licenses for patents that are likely not infringed by the PPE's product.").

[45] eBay Inc., 547 U.S. 388, 393.

[46] *Id*. (Kennedy, Stevens, Souter, Breyer, JJ., concurring).

[47] USITC Inv. No. 337-TA-586, USITC Pub. 4120, 2009 WL 5134139, at *13 (citing statement of Floyd Rose Guitars) ("[Floyd Rose Guitars (Redmond, Washington)] suggests that . . . complainants who do not already have a legitimate domestic industry [could] create a domestic industry which would not otherwise exist, by extracting settlements from respondents after the filing of an (unworthy) complaint. With regard to these settlements from litigation, Rose notes that respondents may choose to take licenses because of a business decision that it is cheaper to settle than to defend infringement suits.").

[48] BRIAN T. YEH, CONG. RSCH. SERV., R42688, AN OVERVIEW OF THE "PATENT TROLLS" DEBATE 11–13 (2012), https://sgp.fas.org/crs/misc/R42668.pdf ("[Patent trolls] occupy highly advantageous bargaining positions, and their leverage over defendants has been attributed to an asymmetry of costs and risk that breaks down into three factors: high litigation costs and no way to dispose of weak suits early; the risk of potentially debilitating liability for defendants; and the lack of any major risk or disincentive for [patent trolls] plaintiffs to litigate. First, patent litigation is expensive, and there is no quick or affordable way to get rid of a patent suit except to settle. Defendants frequently find settlement the most cost-effective option, even if they are certain that they are not infringing . . . . [B]y contrast to their targets, [patent trolls] have nothing to lose and much to gain by litigating aggressively. Unlike most other patentee-plaintiffs, [patent trolls] pursuing infringement suits do not risk disruption to their core business because patent enforcement is their core business. Because [patent trolls] do not make or sell anything, they are not subject to counterclaims that they infringe on defendants' patents.").

Yet despite this accumulating understanding that patent trolls were leveraging legal loopholes to coerce licensing fees from innocent American companies, that understanding went unacknowledged at the ITC, which, in 2010, decided an investigation called Coaxial Cable Connectors, and determined that litigation expenses are sufficient to meet the domestic industry requirement of a Section 337 complaint.[49] In that investigation, the ITC was aware that it faced an important issue of statutory interpretation to determine whether litigation expenses could meet Section 337's domestic industry requirements,[50] and so it issued a request for comments on the issue, including potential answers to the question as to what kinds of litigation activity or legal costs might establish "domestic industry."[51] Cisco, Google, and Verizon wrote in response that because Section 337 "is a trade statute focused on protecting domestic productive industries, not mere legal rights," litigation fees should not count at all towards that requirement.[52] Others argued that Congress in 1988 had indeed reduced the ITC to merely protecting intellectual property rights, without regard to the perverse dynamics caused by litigation.[53]

The ITC ultimately decided that "litigation activities (including patent infringement lawsuits) may satisfy [domestic industry] requirements if a complainant can prove that these activities are related to licensing and pertain to the patent at issue, and can document the associated costs."[54] In order to find the type of activity that would satisfy the requirements of Section 337, the ITC searched for a "common thread" that connected Congress's underlying concerns in ensuring that specifically listed entities—namely, universities, start-ups, and movie studios with copyrighted characters—could meet the domestic industry requirement of Section 337.[55] This common thread, according to the ITC, consisted in activities of a type "that serve to encourage practical

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[49] *See* Coaxial Cable Connectors, Inv. No. 337-TA-650, Comm'n Op. at 43 (Apr. 14, 2010).
[50] *Id*. at 41.
[51] *See* Notice of Comm'n at 3–4, Coaxial Cable Connectors, Inv. No. 337-TA-650 USITC (Dec. 14, 2009). The ITC found that the views received were "at sharp variance with one another." Coaxial Cable Connectors, Commission Op. at 46.
[52] Cisco, Google & Verizon Brief at 8, Coaxial Cable Connectors, Inv. No. 337-TA-650 (Int'l Trade Comm'n Jan. 13, 2010).
[53] Tessera Brief at 5, Coaxial Cable Connectors, Inv. No. 337-TA-650 USITC (Jan. 13, 2010), EDIS Doc. No. 417390.
[54] Coaxial Cable Connectors, Comm'n Op. at 44.
[55] *Id*. at 49 ("The examples mentioned in the legislative history—the university and start-up company licensing their inventions to manufacturers, and the *Gremlins* case—share a common thread; namely, the intellectual property right holder is taking steps to foster propagation or use of the underlying intellectual property, be it a copyrighted image or a patented invention.").

applications of the invention or bring the patented technology to the market," or that otherwise "foster propagation or use of the underlying intellectual property, be it a copyright image or a patented invention," leading the ITC to conclude that "[t]o the extent the examples contained in the legislative history may be understood to convey an intent of Congress, they identify instances in which licensing activities encourage practical applications of the invention or bring the patented technology to the market."[56]

While that formulation makes sense in the context of patent infringement claims brought by the entities mentioned during the congressional debate on the 1988 amendments—that is, universities, start-ups, and movie studios with copyrighted characters, all of whom, while they may not have manufactured anything, actively contributed to the creation of the foundation concept for a physical thing—the formulation makes no sense in the context of patent trolls, who have no role in the creation of any concept themselves.

Yet the ITC in Coaxial Cable Connectors, instead of focusing on how patent trolls and their business model were not contemplated as entities covered under Section 337, focused instead on how Congress did not explicitly *foreclose* litigation costs as they might relate to licensing activities.[57]

Then in 2013, the Federal Circuit affirmed in *InterDigital Commc'ns, LLC v. Int'l Trade Comm'n* that "[u]nder the clear intent of Congress and the most natural reading of the 1988 amendment, [under] section 337 . . . [i]t is not necessary that the party manufacture the product that is protected by the patent, and it is not necessary that any

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[56] *Id*.

[57] Coaxial Cable Connectors, Comm'n Op. at 29 ("[T]he plain language of the statute does not limit the types of licensing activities that the Commission can consider. *See* Garcia v. United States, 469 U.S. 70, 75 (1984) ("[O]nly the most extraordinary showing of contrary intentions from [the legislative history] would justify a limitation on the ""plain meaning' of the statutory language."). Congress simply provided that an industry exists if there is "substantial investment in . . . exploitation [of the patent], including . . . licensing." 19 U.S.C. § 1337(a)(3)(C). The dictionary definition of the term "exploit" is (1) "to put to a productive use" and (2) "to take advantage of." Webster's Ninth at 438; cf. Merriam Webster's New International Dictionary (3d. ed. 1981) at 801. Thus, in ordinary usage, the term "exploitation" would cover licensing activities that "put [the patent] to a productive use," i.e., bring the patented technology to market, as well as licensing activities that "take advantage of the patent, i.e., solely derive revenue. Congress's use of the term "licensing" therefore also covers both types of licensing activities. Accordingly, in assessing whether the domestic industry requirement has been met, we will also consider licensing activities for which the sole purpose is to derive revenue from existing production.").

other domestic party manufacture the protected article."[58] Judge Newman, in her dissent in that case, wrote that:

> My colleagues hold that it is irrelevant that no domestic industry is producing, or planning to produce, the patented articles, directly or under license, stating that Congress 'clearly' intended to abandon the purpose of Section 337 to serve domestic production. However, that is the purpose of Section 337. The legislative record is clear that the 'licensing' amendment to Section 337 was enacted to encourage and support domestic production of patented products. It is time for the court to correct its error, not to reinforce it.[59]

So as it turned out, although the words "domestic industry" were retained in Section 337, the ITC, and subsequently the Federal Circuit, concluded these words were effectively removed from the statute by the licensing loophole.[60] Since then, the ITC has even tended to water down the amount of investment in licensing required for it to amount to the "substantial" investment in licensing required by Section 337.[61]

1. The Federal Circuit Writes the Script for Patent Trolls

The Federal Circuit took up the ITC's decision in Coaxial Cable Connectors (in a case styled as *John Mezzalingua Associates, Inc. v. Int'l Trade Comm'n*) and affirmed its factual finding of no domestic

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[58] InterDigital Commc'ns, LLC v. Int'l Trade Comm'n, 707 F.3d 1295, 1303–04 (Fed. Cir. 2013).

[59] *InterDigital*, 707 F.3d at 1305 (Newman, J., dissenting).

[60] *See* CHARLES DUAN, R STREET POL'Y INST., THE U.S. INTERNATIONAL TRADE COMMISSION: AN EMPIRICAL STUDY OF SECTION 337 INVESTIGATIONS 3–4 (2021), https://www.rstreet.org/wp-content/uploads/2021/11/REALFINAL_22Nov21_RSTREET246-1.pdf ("It would seem that the domestic industry requirement would be a substantial barrier to non-practicing entities seeking to use the ITC, given that by definition non-practicing entities do not manufacture or sell products, but rather only license their patents. However, those entities take advantage of a loophole that allows a patent holder to prove a domestic industry by 'substantial investment in . . . licensing.'") (citing Tariff Act of 1930 § 337(a)(3)).

[61] *See* TOM M. SCHAUMBERG & GARY M. HNATH, A LAWYER'S GUIDE TO SECTION 337 INVESTIGATIONS BEFORE THE U.S. INTERNATIONAL TRADE COMMISSION 72 (5th ed. 2024) ("the burden of showing a . . . 'substantial' investment is not particularly high. . . ."). Indeed, it took the following circumstances for the Commission to find an insignificant investment in licensing: in Certain Stringed Musical Instruments & Components Thereof, Inv. No. 337-TA-586, Comm'n Op. at 24–25 (May 16, 2008), the Commission found insufficient investment where the complainant's investments totaled $8,500 over a 17-year period plus unquantified "sweat equity."

industry while setting out the sort of facts that would be necessary for a finding of domestic industry in the context of licensing and litigation. At the outset, the Federal Circuit agreed with the ITC about expenditures.[62]

However, while the Federal Circuit may have rejected the notion that patent litigation costs should automatically constitute evidence of a domestic industry, it went on to outline a simple script that patent trolls could incorporate into billing records and demand letters issued prior to litigation, which would satisfy the domestic industry requirement. The Federal Circuit focused on the lack of evidence the complainant provided.[63]

So now, patent trolls need only compose billing records reflecting "prelitigation communications"[64] and "attorney work descriptions"[65] in the following manner, in order to be deemed a domestic industry: "offer[] to license the patent to [the defendant] before commencing litigation"; "sen[d] a cease and desist letter mentioning the possibility of a settlement"; and "conduct[] either settlement or licensing negotiations during the lawsuit itself."[66] As long

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[62] John Mezzalingua Assoc., Inc. v. Int'l Trade Comm'n, 660 F.3d 1322, 1328 (Fed. Cir. 2011) ("The Commission pointed out that '[a]llowing patent infringement litigation activities alone to constitute a domestic industry would place the bar for establishing a domestic industry so low as to effectively render it meaningless.' We agree with the Commission that expenditures on patent litigation do not automatically constitute evidence of the existence of an industry in the United States established by substantial investment in the exploitation of a patent.").

[63] *Id.* ("With respect to the Florida action, the administrative judge noted that there was no evidence that [complainant] PPC had offered to license the patent to Arris before commencing litigation, no evidence that PPC had sent a cease-and-desist letter mentioning the possibility of a settlement, and no evidence that PPC had conducted either settlement or licensing negotiations during the lawsuit itself.").

[64] *See id.* at 1329 (noting the need for a more substantial record of "prelitigation communication" to show domestic industry under the licensing prong).

[65] *See id.* at 1329–30 ("The Commission directed the administrative law judge to decide which of [complainant] PPC's many expenses were truly related to licensing of [its] patent and which were not, and it suggested a flexible framework by which the administrative law judge could make that decision. In so doing, the administrative law judge reasonably relied on *attorney work descriptions* as he identified which expenses related to PPC's litigation activities and which related to its investment in the domestic industry through licensing.") (emphasis added); *see also id.* at 1334 (Reyna. J., dissenting) (noting that "[o]n remand the ALJ concluded that PPC's settlement and license agreement had a sufficient nexus with the litigation, but that only the *attorney time billed specifically for settlement negotiations and license agreement preparation* could constitute 'investments' in licensing under Section 337(a)(3)(C).") (emphasis added) (citation omitted).

[66] Indeed, such a script need only be composed by a patent troll during the course of seeking to coerce a single license. *See id.* at 1330 (majority opinion) ("[T]o be sure, there is no rule that a single license—such as an exclusive license—cannot satisfy

as a patent troll puts this scripted language in enough pre-litigation billing records,[67] subsequent litigation will be "blessed" and deemed evidence of the presence of a domestic industry. And note that the licensing motivations embodied in this script are the very same patent troll litigation tactics that the FTC, in its report on the proper balance between competition and patent law,[68] and Justice Kennedy, in his concurring opinion in *eBay v. MercExchange,*[69] had previously condemned.

As S. Alex Lasher writes, "The unintended result is that domestic manufacturers, which Section 337 was originally designed to protect, have a higher burden of proof [to show domestic industry] than intellectual property owners who merely license, or attempt to license, their intellectual property."[70]

III. ITC RULES AND PRECEDENTS PUT AMERICAN COMPANIES AT A SEVERE DISADVANTAGE

A variety of rules and precedents put innocent American company respondents at a distinct disadvantage at the ITC.

At the outset, it is worth noting that, as a baseline, the ITC operates under the same sorts of dysfunctional rules that govern federal civil litigation.

First, there is no gatekeeper at the ITC to weed out meritless claims prior to the initiation of an investigation. That is, the ITC institutes an investigation as long as the complaint includes the required information and is in the proper format.[71]

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the domestic industry requirement based on a substantial investment in licensing."). As a result, as others have remarked, today, patent troll complainants engaged in licensing arguably face lower hurdles to obtaining a remedy under Section 337 than complainants who actually engage in domestic manufacturing. *See, e.g.*, Chien, *supra* note 1, at 176.

[67] A licensing effort need not even be successful to count toward exploiting the patent for purposes of showing domestic industry. *See* Coaxial Cable Connectors, Inv. No. 337-TA-650 USITC, Comm'n Op. at 51 n.16 (Apr. 14, 2010) ("[T]he mere fact that a patent holder's efforts to obtain a license are unsuccessful does not per se mean that expenses associated with any related activities are not investments in the exploitation of the patent through licensing.").

[68] FED. TRADE COMM'N, TO PROMOTE INNOVATION, *supra* note 44, at 41.

[69] *See* eBay, Inc. v. MercExchange, LLP, 547 U.S. 388, 393 (2006) (Kennedy, J., concurring).

[70] Lasher, *supra* note 17, at 176.

[71] *See* SCHAUMBERG & HNATH (5th ed. 2024), *supra* note 61, at 46–47, n.13 ("However, in the history of Section 337, the Commission has rarely determined not to institute an investigation after receiving a complaint. Because the Commission must institute an investigation if the complaint complies with Commission rules

Second, respondents in ITC investigations must of course spend money to defend themselves regardless of the merits of the case, as they would be subject to a default judgment otherwise. At the ITC, the victim of the complaint must pay its own expenses in defense, which will not be recouped in the event the claims against the respondent prove to be without merit. As Tom M. Schaumberg writes:

> 19 U.S.C. § 1337(g) provides the Commission the authority to find respondents in default. Commission Rule § 210.16(a) (1) provides that a respondent shall be found in default if it fails to respond to the complaint and the notice of investigation in the manner prescribed in Commission Rule §210.13 or §210.59(c) or otherwise fails to answer the complaint and the notice and fails to show cause why it should not be found in default. If a respondent is found in default, the Commission presumes the facts in the complaint to be true and, after considering the statutory public interest factors, may enter an appropriate remedy order, which may include cease and desist orders, a limited exclusion order, or, if the factors listed in Section 337(g)(2) are met, a general exclusion order.[72]

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governing basic format and information required for a complaint, institution does not reflect any determination by the Commission on the merits of the complainant's allegations.") (citing 19 C.F.R. 210.12, 210.8). The Federal Rules of Civil Procedure also place no limits on the ability or authority of a lawyer to file a complaint. *See* FED. R. CIV. P. 3 ("A civil action is commenced by filing a complaint with the court."). Once a complaint is filed, the court clerk sends a summons to the plaintiff or their attorney, who then serves the summons and a copy of the complaint on the defendant. FED. R. CIV. P. 4(b). The summons carries with it the threat of a default judgment if the defendant does not respond, thereby requiring a response however innocent the defendant might be. FED. R. CIV. P. 4(a)(1)(E).

[72] SCHAUMBERG & HNATH (5th ed. 2024), *supra* note 61, at 164–65 (citing Certain Universal Golf Club Shaft & Golf Club Head Connection Adaptors, Certain Components Thereof, & Prods. Containing the Same (II), Inv. No. 337-TA-1354, Comm'n Notice (Sept. 18, 2023), and 19 U.S.C. 1337(g)(1); Certain Protective Cases & Components Thereof, Inv. No. 337-TA-780, Comm'n Op. (Nov. 19, 2012) (issuing general exclusion order and cease and desist order against defaulting respondents)). The Federal Circuit has held that once a respondent is found in default, the Commission cannot reconsider the adequacy of the allegations in the complaint but is "required to issue relief unless precluded by public interest concerns." Laerdal Med. Corp. v. U.S. Int'l Trade Comm'n, 910 F.3d 1207, 1215 (Fed. Cir. 2018).

Third, the costs of defense in an ITC investigation are large.[73] Indeed, the ITC's accelerated timetable for decisions increases the respondents' costs of defense.[74]

Fourth, these high costs create a coercive pressure to settle the case with complainants and pay them something below the costs of defense, even when the claims against them are meritless. As David Rosenberg and Steven Shavell have described the situation under current law in federal court:

> [T]he plaintiff may choose to file a claim at some (presumably small) cost. If the defendant does not then settle with the plaintiff and does not, at a cost, defend himself, the plaintiff will prevail by default judgment. . . . Given the model and the assumption that each party acts in his financial interest and realizes the other will do the same, it is easy to see how nuisance

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[73] *See* DUAN, *supra* note 60, at 10–11 (citing AM. INTELL. PROP. L. ASS'N, REPORT OF THE ECONOMIC SURVEY 2019, at 52 (Sept. 2019), https://www.reginfo.gov/public/do/eoDownloadDocument?pubId=&eodoc=true&documentID=6898 [https://perma.cc/V85U-QNM4]) ("A survey of patent practitioners by the American Intellectual Property Law Association (AIPLA) puts the cost of litigating an ITC investigation at $100,000–500,000 for initial case management, and $750,000–5.5 million through trial, depending on the complexity of the case. . . . If we conservatively assume most ITC investigations to involve $1–10 million at risk, an ITC investigation would cost a party on average $250,000 for initial case management, $2,000,000 up to the start of trial, and $4,000,000 through trial and completion of the investigation, according to the AIPLA survey."); *see also* Josh Landau, *An End of Year Look at the ITC* (Dec. 15, 2022), https://www.patentprogress.org/2022/12/an-end-of-year-look-at-the-itc/ [https://perma.cc/7QP8-SEAC] ("And even if an exclusion order isn't ultimately issued, the process of defending against patent trolls' claims is extremely costly for the companies targeted—costs of defending an ITC action were estimated at approximately $8 million per patent in suit. (And there's almost never just one patent asserted.) And the impact of an exclusion order is so huge—completely removing products from the U.S. market—that even if a company is confident that the patent infringement claim is bogus, they may decide to settle anyways. The possibility of an exclusion order, no matter how unlikely, is rarely worth the risk.").

[74] Charlie Jonas, *NPE Power Reversal: Amending ITC Standing Under Section 337 and Domestic Industry*, 24 TUL. J. TECH. & IP 223, 232 (2022) (noting speed comes with a cost and that ITC proceedings are approximately "three times [more expensive for respondents than] what they would . . . [assume] in a district court case" and that knowledgeable patent trolls will "typically leverage the higher costs of this compressed expense window to increase settlement pressure") (citing Brian Seal & Thomas Southard, *Non-Practicing Entities Face an Uphill Battle in Proving the Domestic Industry Requirement at the ITC*, RATNERPRESTIA, http://www.ratnerprestia.com/2013/07/26/non-practicing-entities-face-an-uphill-battle-in-proving-the-domestic-industry-requirement-at-the-itc/).

> suits can arise. By filing a claim, any plaintiff, and thus the plaintiff with a weak case, places the defendant in a position where he will be held liable for the full judgment demanded unless he defends himself. Hence, the defendant should be willing to pay a positive amount in settlement to the plaintiff with a weak case—despite the defendant's knowledge that were he to defend himself, such a plaintiff would withdraw.[75]

The same incentives for lawyers to file meritless nuisance lawsuits for their settlement value in federal court apply to encourage patent trolls in ITC cases as well. As I've written elsewhere:

> Under this dynamic, when an attorney files a case, the defendant is in a lose-lose situation from the beginning: the defendant can either pay the costs of defending the case, or lose the case entirely by doing nothing. All cases, simply by virtue of being filed, have an immediate value for the plaintiff that creates an inherently superior bargaining position for the plaintiff's attorney. Attorneys have the unique power to subject innocent individuals to a situation in which simply paying off frivolous claimants through monetary settlements is often cheaper than litigating the case.[76]

At the ITC, this coercive pressure allows patent trolls to get their licensing fees through settlements, which in turn provide them the keys to ITC proceedings. As the FTC has stated, "companies seeking to hold up rivals can set the licensing fees below the cost of litigation, including the managerial distraction, so as to make the taking of a license the only

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[75] D. Rosenberg & S. Shavell, *A Model in Which Suits are Brought for Their Nuisance Value*, 5 INT'l. Rev. L. & Econ. 3, 3 (1985).

[76] Paul Taylor, *The Difference Between Filing Lawsuits and Selling Widgets: The Lost Understanding that Some Attorneys' Exercise of State Power is Subject to Appropriate Regulation*, 4 PIERCE L. REV. 45, 50–51 (2005) (citations omitted). The Supreme Court has also noted the institutionally coercive role lawyers are allowed to play in society, stating: "As an officer of the court, a member of the bar enjoys singular powers that others do not possess; by virtue of admission, members of the bar share a kind of monopoly granted only to lawyers. . . . [A]s an officer of the court, a lawyer can cause persons to drop their private affairs and be called as witnesses in court, and for depositions and other pretrial processes that, while subject to the ultimate control of the court, may be conducted outside courtrooms. The license granted by the court requires members of the bar to conduct themselves in a manner compatible with the role of courts in the administration of justice." *In re* Snyder, 472 U.S. 634, 644–45 (1985).

economically sensible alternative, regardless of the strength of the patent."[77]

These rules give private actors immense financial leverage over anyone they sue in federal court, and anyone against whom a complaint is filed at the ITC. As one commentator has pointed out:

> The state could require the attorney to submit for ex parte approval a proposed defendants list that includes constitutional rationales for naming each defendant. But the courts and legislatures have delegated these decisions to attorneys. By allowing discretion into procedural rules, the state grants decisional power to attorneys. These grants of discretion substitute the attorney's decisions for those of a judge or other state officer or body.[78]

Attorneys have this power, yet they are allowed to exercise it on behalf of their clients and for their own financial gain. As Judge Richard Posner has explained, "the legal process relies for its administration primarily on private individuals motivated by economic self-interest rather than on altruists or officials."[79] And as I have written elsewhere:

> Attorneys who file lawsuits can, by simply filing a complaint at their unfettered discretion, immediately subject defendants to the threat of a default judgment and necessitate their spending money and resources toward their defense. That dynamic results in a situation in which a defendant will be made to pay any amount to the plaintiff in settlement, provided the settlement demanded is less than the defendant's costs of defense and the plaintiff's attorneys' costs for filing the case are minimal (as they universally are). . . .[P]rivate attorneys

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[77] FED. TRADE COMM'N, TO PROMOTE INNOVATION, *supra* note 44, at 40 (citing Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 NW. L. REV. 1495, 1517 (2001)) (noting that "patent owners might try to game the system by seeking to license even clearly bad patents for royalty payments small enough that licensees decide that it is not worth going to court")). *See also id*. at 40 ("Just as an NPE [patent troll] may wish to set the royalty fee it seeks at just below what it would cost the 'held up' firm to litigate the validity or infringement of the NPE's patent, so an NPE may wish to set its requested royalty fee at just below what it would cost the firm to redesign around the patent.").

[78] James W. Harper, *Attorneys as State Actors: A State Action Model and Argument for Holding SLAPP-Plaintiffs' Attorneys Liable Under 42 U.S.C. § 1983*, 21 HASTINGS CONST. L.Q. 405, 423–24 (1994).

[79] RICHARD A. POSNER, ECONOMIC ANALYSIS OF LAW 565 (5th ed., Aspen Publishers, Inc. 1998).

> who file lawsuits should be considered state actors in most circumstances in which they trigger the authority of the state and, through the state, the threat of a default judgment and the consequent necessary expenditure of defense costs. . . . Consequently, like all other economic actors, attorneys will tend to exploit situations to maximize their utility. One way of doing that, of course, is by exploiting the inherent bargaining advantage the state allows them through rules authorizing attorneys to sue whomever they want for whatever they want, even when a lawsuit has no legal merit.[80]

Fifth, there are no effective penalties for the filing of meritless complaints at the ITC, as is the case in federal civil litigation as well. The relevant rules regarding frivolous filings in both federal court and the ITC are of little help to a victim of a frivolous lawsuit or ITC complaint. Rule 11 of the Federal Rules of Civil Procedure does not require any sanctions at all for the filing of frivolous lawsuits.[81] As a result, the ue of Rule 11 has declined, as initiating a Rule 11 proceeding would incur even more expenses for the victim of a frivolous lawsuit, with no guarantee of compensation in the end.[82] Rule 11 of the Federal Rules of Civil Procedure does not apply directly to proceedings before the ITC, as the ITC is an independent, quasi-judicial federal agency that operates under its own set of rules and procedures, but the ITC has its own procedural rules that incorporate requirements similar to Rule 11. The ITC rules, which are codified in Title 19 of the Code of Federal Regulations, contain provisions analogous to Rule 11's sanctions against improper conduct. For example, 19 C.F.R. § 210.4 outlines the standards for representations to the ITC, including certifications regarding the truthfulness and reasonableness of documents submitted. However, just as with Federal Rule 11, the ITC rules do not mandate

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[80] Paul Taylor, *The Difference Between Filing Lawsuits and Selling Widgets: The Lost Understanding that Some Attorneys' Exercise of State Power Is Subject to Appropriate Regulation*, 4 PIERCE L. REV. 45, 45–48 (2005).

[81] FED. R. CIV. P. 11(c) ("[T]he court *may* . . . impose an appropriate sanction . . . .") (emphasis added).

[82] See David Rauma & Thomas E. Willging, *Report of a Survey of United States District Judges' Experiences and Views Concerning Rule 11, Federal Rules of Civil Procedure*, FEDERAL JUDICIAL CENTER 6 (reporting that "45% of [surveyed] judges reported that Rule 11 activity had decreased [since its amendments in 1993], either slightly or substantially, and 29% reported that activity was about the same"), available at [https://perma.cc/3XHU-CR2Q].

sanctions for frivolous complaints,[83] and consequently such rules go largely unused at the ITC as well.[84]

Sixth, the discovery rules in any case in which patent trolls are on one side, and productive companies are on the other side, result in significantly lopsided discovery costs. As others have pointed out, "[i]f a party does not make or sell products or provide services based on the patented invention, then it is likely to have far fewer documents to disclose. Consequently, as [patent trolls] do not produce products, the discovery phase can be far less costly for [patent troll] plaintiffs than for defendants."[85] Discovery costs are disproportionately large for defendants compared to patent trolls, as the infringement phase of a patent case deals only with allegations regarding the defendant's products, and all the patent troll does is demand discovery, which the defendant alone has to produce. As another commentator points out:

> If, for example, Microsoft and IBM engaged in patent litigation, each side would have to divert resources from the business and produce thousands of documents in discovery; likely, there would be counterclaims where the defendant went on the offensive to challenge some of the plaintiff's patents. A [patent troll] does not have to divert resources—litigation is one of its central purposes. Because a troll does not actually produce any product pursuant to the patents it holds, this cuts down on the burden of civil discovery and takes away the threat of an infringement counterclaim that could shut down a business.[86]

The fact that patent trolls who produce nothing, and consequently have nothing to produce by way of the discovery of business records, is yet another reason the ITC and others should

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[83] 19 C.F.R. § 210.4(d) ("If, after notice and a reasonable opportunity to respond . . . the presiding administrative law judge or the Commission determines that paragraph (c) of this section has been violated, the administrative law judge or the Commission *may*, subject to the conditions stated below and in § 210.25, impose an appropriate sanction upon the attorneys, law firms, or parties that have violated paragraph (c) or are responsible for the violation.") (emphasis added).

[84] *See, e.g.*, Brian Drozd, *The Duty of Candor and Sanctions in the International Trade Commission*, 8 N.C. J.L. & Tech. On. 8, 14–15 (citing 19 C.F.R. § 210.4(d)(1)) ("[U]nder the [ITC's] 'safe harbor' rule, once a motion for sanctions has been served on a party, that party has an opportunity to withdraw the disputed papers to avoid sanctions.").

[85] Lauren Cohen, Umit G. Gurun & Scott Duke Kominers, *Patent Trolls: Evidence from Targeted Firms* 6 (Harv. Bus. School, Working Paper No. 15-002, 2018).

[86] WILLIAM J. WATKINS, PATENT TROLLS: PREDATORY LITIGATION AND THE SMOTHERING OF INNOVATION 15 (2013).

reconsider deeming patent trolls a "domestic industry." As historian Steven Usselman writes, when the patent system was first established in America:

> [E]ven the most ardent watchdogs of centralized power could console themselves in knowing that the ultimate test of patented technologies would come not in the halls of government but in the marketplace and the courts. For a patent in and of itself conveyed no rewards or special privileges. Inventors did not receive a bounty based on the perceived utility of their handiwork. Rather, a patent merely extended to creative individuals a legal claim upon those who wished to use their novelties. The market would determine the number of takers and the amount they were willing to pay.[87]

Yet today, patent trolls can leverage the coercive pressures inherent in the legal system for financial gain, wholly outside the market. That is not "industry." It has no connection at all to the marketplace. But now, even as patent trolls produce and sell nothing, they can still make money, solely by leveraging the coercive pressures inherent in the current legal rules.

Seventh, the vast number of patents[88] and their inherent vagueness[89] make it virtually impossible for innocent companies to avoid patent infringement lawsuits. This adds to the defense costs of innocent companies in other ways as well, such as incentivizing defensive "patent mining."[90]

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[87] STEVEN W. USSELMAN, REGULATING RAILROAD INNOVATION: BUSINESS, TECHNOLOGY, AND POLITICS IN AMERICA 1840–1920, 97–98 (2002) (ebook).
[88] *See* FED. TRADE COMM'N, TO PROMOTE INNOVATION, *supra* note 44, at 40 ("Another panelist stated that 'the large number of issued patents in our field makes it virtually impossible to search all potentially relevant patents, review the claims, and evaluate the possibility of an infringement claim or the need for a license.'").
[89] *See* Mark A. Lemley & Philip J. Weiser, *Should Property or Liability Rules Govern Information?*, 85 TEX. L. REV. 783, 793–94 (2007) ("A number of rights protected by property rules feature injunctive relief that is not well tailored to protect only the underlying entitlement. Consider the case of patents. In theory, the claims of a patent serve the same role as the legal description in a real property deed, but it is impossible in practice to perfectly define inventions in terms of words.").
[90] *See* FED. TRADE COMM'N, TO PROMOTE INNOVATION, *supra* note 44, at 39 ("The panelists discussed two reasons for the emergence of 'patent mining' by companies. First, the need to patent defensively has forced many firms to develop extensive patent portfolios, at considerable cost. One business representative stated that it costs about $200,000 to maintain a patent worldwide over a period of 20 years. Panelists reported that some companies have sought to offset these costs by seeking to license their patents to other companies, particularly companies that operate outside the

Eighth, there is the imbalance in standards of proof at work in patent litigation. In patent litigation, the coercive pressure to settle is even stronger because patents, once granted by the United States Patent and Trademark Office ("USPTO") (including patents that were not properly granted under the relevant rules), are legally deemed to have a "presumption of validity."[91] The Patent Act establishes that once a patent has been granted by the USPTO, "a patent shall be presumed valid"[92] and "the burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity."[93] The Court of Appeals for the Federal Circuit, which hears patent suit appeals, has interpreted this provision to require a party defending against an infringement charge to do so by "clear and convincing evidence" that a patent was improperly granted,[94] which is a much higher standard than the usual "preponderance of the evidence." That imbalance in the standards of proof apply in ITC investigations as well.[95]

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market of the patent holder, because a higher royalty can be extracted due to an imbalance in bargaining positions. Second, panelists contended that business attitudes towards patents have changed since the 1980s. The management of some companies, some asserted, have begun to treat patents as an asset that must generate a return, instead of as a means to exclude parties from a particular invention. Panelists cited two examples to support this change in attitude. First, a number of panelists mentioned Texas Instruments, which successfully instigated a patent mining program in the late 1980s to save the company from bankruptcy and thereby became an example to other companies of how to mine their patents. Second, a widely read book in business circles entitled Rembrandts in the Attic encourages managers to generate revenue from their patents by mining them.").

[91] 35 U.S.C. § 282.

[92] *Id.*

[93] *Id.*

[94] Pfizer, Inc. v. Apotex, Inc., 480 F.3d 1348, 1359 (Fed. Cir. 2007).

[95] *See* Certain Light-Based Physiological Measurement Devices and Components Thereof, Inv. No. 337-TA-1276 ((Jan. 10, 2023) (final) ("It is the respondents' burden to prove invalidity, and the burden of proof never shifts to the patentee to prove validity. *Scanner Techs. Corp. v. ICOS Vision Sys. Corp. N.V.*, 528 F.3d 1365, 1380 (Fed. Cir. 2008). 'Under the patent statutes, a patent enjoys a presumption of validity, *see* 35 U.S.C. § 282, which can be overcome only through facts supported by clear and convincing evidence . . . .' *SRAM Corp. v. AD-II Eng'g, Inc*., 465 F.3d 1351, 1357 (Fed. Cir. 2006); s*ee also Microsoft Corp. v. i4i Ltd. P'ship*, 564 U.S. 91, 100–14 (2011) (upholding the "clear and convincing" standard for invalidity.").

1. The ITC's Weak Due Process Protections Strengthen Patent Trolls

There are a large variety of procedures in effect at the ITC that weaken the due process protections for respondents and strengthen the hand of complainants, including patent trolls.

There are procedures leading to a rush to judgment, under uniquely streamlined procedures,[96] as the ITC's governing statute requires the prompt resolution of their investigations. Under Section 337 of the Tariff Act of 1930, the ITC is required to complete its investigations "at the earliest practicable time" and to establish a target date for completion no later than 45 days from the start of an investigation.[97] In practice, the ITC generally conducts evidentiary hearings within seven to nine months,[98] with the majority of investigations concluding within 16 months.[99]

This accelerated schedule provides many advantages to complainants at the ITC. From the get-go, the respondent is behind the eight ball,[100] as the complainant can take its time preparing voluminous discovery requests,[101] with the respondent having little time to

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[96] *See ITC Section 337 Investigations*, FINNEGAN, https://www.finnegan.com/en/work/practices/enforcement-and-litigation/itc-section-337-investigations.html (last visited Jan. 26, 2025) [https://perma.cc/SG53-VENC] ("ITC schedules are nearly unprecedented in the United States, with the entire case—including complaint, discovery, pretrial hearings, trial, post-trial briefs, and even subsequent review by the ITC—typically occurring within eighteen months.")

[97] 19 U.S.C. § 1337.

[98] *See* SCHAUMBERG (3rd ed. 2016), *supra* note 1, at 2 ("[T]he speed at which Section 337 investigations are conducted is remarkable . . . . The evidentiary hearing (the ITC's version of a trial) generally occurs seven to nine months from the date of institution of the investigation, as opposed to the typical two to three years in federal district court.").

[99] *See* SCHAUMBERG & HNATH (5th ed. 2024), *supra* note 61, at 4 ("The majority of Section 337 investigations are targeted for completion in approximately 16 months.").

[100] *See* SCHAUMBERG (3rd ed. 2016), *supra* note 1, at 13 ("Assuming the complainant plans accordingly, the swift pace of Section 337 investigation can place it in an excellent tactical position. Because the complainant chooses when to file its complaint, it has the opportunity to make substantial preparations for discovery before the rigorous investigation schedule begins to run. A respondent, on the other hand, necessarily enters the investigation well behind. It must grapple with a barrage of tasks immediately, including responding to the complaint within 20 days and . . . responses to discovery requests due within ten days of publication of the notice of institution in the Federal Register.").

[101] *See id.* at 95 ("This accelerated process can work to the initial advantage of the complainant who is in a position to prepare its discovery in advance of filing the complaint.").

respond.[102] And, as explained earlier, since patent trolls make no products, they will not face any burdensome discovery requests themselves as they have no business records to produce.

With a patent's statutory presumption of validity stacked on top of these accelerated procedures, respondents have much less time, compared to federal district court litigation, to meet their higher evidentiary burden to show the patent at issue is invalid under a clear and convincing standard, greatly increasing the short-term costs of respondents for defending themselves.[103]

The accelerated pace at the ITC is also accompanied by lax procedures to accommodate the truncated process. Section 337 proceedings are called "investigations," not cases, and their rules significantly limit the opportunity for interlocutory review.[104] Beyond that, the Federal Rules of Civil Procedure do not apply at the ITC,[105]

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[102] *See id.*

[103] *See* Matthew Deuscher, *Controlling the Patent Trolls: A Proposed Approach for Curbing Abusive Section 337 Patent Claims in the ITC*, 96 J. PAT. & TRADEMARK OFF. SOC'Y 614, 620 (2014) (citing *An Overview of Section 337 Litigation Before the ITC*, LAW360 (Aug. 9, 2010), http://www.law360.com/articles/183706/an-overview-of-section-337-litigation-before-the-itc [https://perma.cc/TS5M-MUPC]) ("Cost is also a significant factor. As ITC investigations proceed on such a compressed timescale, they pose a greater short-term cost to both parties compared to litigation in federal district courts. . . . District court litigation, on the other hand, proceeds on a generally more manageable time schedule, and the defendant has the opportunity to possibly stay the case, foreclosing an early judgment on the merits.").

[104] *See* 19 C.F.R. § 210.24; *see also* Certain Hybrid Electric Vehicles and Components Thereof, Inv. No. 337-TA-688, Order No. 14 at 5 (June 16, 2010), (finding that Toyota had not met "the heavy burden of meeting the criteria for interlocutory appeal").

[105] *See* DUAN, *supra* note 60, at 3 ("The ITC is also not subject to the Federal Rules of Civil Procedure, so the agency can impose limits on briefing and argument beyond the federal courts abilities, potentially preventing parties from fully fleshing out their cases. . . . Upon receiving a complaint alleging importation of patent-infringing products, the ITC is required to institute an investigation, which it delegates to one of several administrative law judges (ALJs) on staff. *Ibid*. § 337(b)(1); 19 C.F.R. § 210.3. The ALJ manages adjudication procedure, oversees discovery, takes evidence, holds hearings and ultimately makes findings after a trial in a decision called a 'final initial determination' that addresses the merits of the patent infringement claim, the domestic industry requirement and perhaps the public interest factors. 19 C.F.R. § 210.42. The six commissioners of the ITC then have the opportunity to review the ALJ's determination, resulting in issuance of a 'final determination.' § 210.45(c). If exclusion or other remedy is ordered, then the White House has 60 days to reconsider, after which the ITC's order is given effect by federal customs officials. Tariff Act § 337(d), (j)."); *see also* Harvey Kaye, R. V. Lupo & Steven E. Lipman, *The Jurisdiction Paradigm between the United States International Trade Commission and the Federal District Courts*, 64 J. PAT. OFF. SOC'Y 118, 123 (1982) ("A trial in federal district court is familiar to most attorneys

whose procedures as a federal trade agency are uniquely governed[106] under the rules set out in the Administrative Procedure Act,[107] which members of Congress, during debate on the 1988 amendments, described as less "cumbersome" than the rules that would apply in federal court.[108]

The ITC has a general policy encouraging settlements,[109] but settlement negotiations nevertheless remain stymied,[110] as attorneys face quicker trial preparation deadlines at the ITC.

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and warrants little exposition in this article. The salient features are that discovery is conducted in accordance with the Federal Rules of Civil Procedure, and that trial is conducted in accordance with the Federal Rules of Evidence. The strict confines of the Federal Rules of Civil Procedure standardize available discovery techniques and ensure that the overall discovery process is conducted in a fair and orderly fashion. Likewise, the Federal Rules of Evidence help provide judicial certainty by codifying a long-existing body of case law to assure the proper introduction of evidence. These two basic rule codifications of the Federal process highlight the disparities which exist between the procedures of the district courts and the Commission: Commission proceedings are governed by the Administrative Procedure Act, 5 U.S.C. §706 et seq., and employ directly neither the Federal Rules of Civil Procedure nor the Federal Rules of Evidence.").

[106] *See* SCHAUMBERG & HNATH (5th ed. 2024), *supra* note 61, at 5 ("Section 337 is unique among trade remedy laws in that it is the only such law subject to the APA [Administrative Procedure Act].").

[107] Administrative Procedure Act, 5 U.S.C. §§ 500–596.

[108] 132 CONG. REC. 7119 (1986) (statement of Rep. Robert Kastenmeier); *see also*, 19 U.S.C. § 1335 enables "[t]he commission . . . to adopt such reasonable procedures and rules and regulations as it deems necessary to carry out its functions and duties," giving the ITC broad powers to employ relatively lax rules.

[109] *See* SCHAUMBERG & HNATH (5th ed. 2024), *supra* note 61, at 159 ("There is a general policy favoring settlements [at the ITC], and this is demonstrated by the authority to mandate settlement conferences. Pursuant to Section 556(c)(6) of the Administrative Procedure Act, ALJs may 'hold conferences for the settlement or simplification of issues by consent of the parties.' 5 U.S.C. § 556(c)(6) It is typical for ALJs to exercise this authority."). *See, e.g.*, Certain Hydraulic Excavators & Components Thereof, Inv. No. 337-TA-582, Order No. 26 (Mar. 9, 2007) (Barton, J.) (ordering parties to appear at the ITC for a mandatory prehearing conference to discuss possible settlement). In fact, most ALJs set forth the requirement to conduct settlement conferences in their ground rules and include in their procedural schedules dates by which the parties must conduct and report upon settlement conferences. *See* Certain Portable Elec. Devices & Components Thereof, Inv. No. 337-TA-994, Order No. 2 (May 11, 2016) (Shaw, J.) (setting forth in the ground rules that "[a]ll parties, throughout the duration of the proceedings, shall explore reasonable possibilities for settlement of all or any of the contested issues" and requiring the parties "to have at least two settlement conferences, or . . . opt to commence a mediation procedure available through the Commission.")).

[110] *See* Colleen V. Chien, *Patently Protectionist?: An Empirical Analysis of Patent Cases at the International Trade Commission*, 50 WM. & MARY L. REV. 63, 100 (2008) ("I observed striking differences in the resolution of ITC and district court cases. To begin, ITC litigants were considerably less likely to settle. While nearly 70

The accelerated schedule also leaves little to no room for *Markman* hearings,[111] which are often crucial to the fair and accurate resolution of patent disputes. Without the time needed to thoroughly explore the issues related to patent validity, the ITC will have a tendency to default to relying on a patent's presumption of validity, simply because it likely takes more time for respondents to marshal the additional evidence necessary to meet the "clear and convincing" standard for finding a patent invalid, as opposed to the "preponderance of the evidence" standard for finding infringement.

These weaker due process protections for respondents at the ITC are allowed under the weaker constitutional protections afforded to those in forums dealing with import restrictions, as Congress has much more authority to craft rules regarding border control compared to domestic activity.[112] The Federal Circuit has noted that there is a "long-

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percent of district court cases settled, only 42 percent of parties to ITC investigations settled. ITC litigants were also much more likely to adjudicate their disputes to an end. ITC investigations were fully adjudicated (at trial or summary judgment) 44 percent of the time, or four times the rate of adjudication in district court. The differences between the venues in settlement and adjudication are significant, using a conventional statistical approach for significance testing. . . . I performed a similar comparison on the parallel subset of cases that had been filed in the ITC and district courts in order to control for any selection bias. The difference in outcomes was even more pronounced: ITC investigations were nearly six times more likely to be adjudicated (41 percent of the time) than their district court counterparts (7 percent of the time), a statistically significant difference."); *see also* SCHAUMBERG & HNATH (5th ed. 2024), *supra* note 61, at 4 ("In the ten years between 2012 and 2022, of the 684 new and ancillary investigations that were instituted, an average of slightly over 40 percent of investigations settled or resulted in a consent order . . . . Of the 200 cases that received a final Commission determination, 60 percent resulted in a finding of violation and 40 percent in no violation, slightly higher than the historical 50/50 split but, nonetheless, reflecting the due process nature of the proceedings.").

[111] *See* David A. Hickerson & William C. McCaughey, *What Every Multinational Company Should Know About . . . Section 337 Cases at the International Trade Commission*, FOLEY & LARDNER LLP (July 12, 2023), https://www.foley.com/insights/publications/2023/07/multinational-corporation-section-337-cases-itc/ [https://perma.cc/349F-RBL3] ("[O]ne key difference at the ITC is that ALJs typically do not hold *Markman* hearings or allow for separate claim construction briefing."); for the nature of a *Markman* hearing, *see, e.g.*, Phillips v. AWH Corp., 415 F.3d 1303, 1332 (Fed. Cir. 2005) ("During so called *Markman* 'hearings,' which are often longer than jury trials, parties battle over experts offering conflicting evidence regarding who qualifies as one of ordinary skill in the art; the meaning of patent terms to that person; the state of the art at the time of the invention; contradictory dictionary definitions and which would be consulted by the skilled artisan; the scope of specialized terms; the problem a patent was solving; what is related or pertinent art; whether a construction was disallowed during prosecution; how one of skill in the art would understand statements during prosecution; and on and on.").

[112] *See* United States v. 12 200-Ft. Reels of Super 8mm. Film, 413 U.S. 123, 125–26 (1972).

standing principle that importation is treated differently than domestic activity."[113] The Supreme Court has also noted that:

> Import restrictions and searches of persons or packages at the national borders rest on different considerations and different rules of constitutional law from domestic regulations. The Constitution gives Congress broad, comprehensive powers "[t]o regulate Commerce with foreign Nations." Historically such broad powers have been necessary to prevent smuggling and to prevent prohibited articles from entry.[114]

1.1 ITC Dilutes Standing Rules for Patent Trolls and Gives Them the Unique Power to Compel Other Parties to Make Their Case at the ITC

Another constitutional difference between federal courts and the ITC is that constitutional standing rules, which govern who can bring lawsuits, apply in federal court,[115] but not at the ITC. Under constitutional standing rules, a nonexclusive licensee holds only a promise that the patentee will not sue the licensee for practicing the patented technology, and does not suffer legal injury if the patent is infringed by someone else.[116] As the Second Circuit stated in *Western Electric Co. v. Pacent Reproducer Corp*.:

> In its simplest form, a license means only leave to do a thing which the licensor would otherwise have a right to prevent. Such a license grants to the licensee merely a privilege that protects him from a claim of infringement by the owner of the patent monopoly. He has no property interest in the monopoly of the patent . . . .[117]

As a result, a nonexclusive licensee does not have standing to bring a claim for patent infringement in federal court. However, different standing rules apply at the ITC. Whereas federal courts require

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[113] Spansion, Inc. v. U.S. Int'l Trade Comm'n, 629 F.3d 1331, 1359–60 (Fed. Cir. 2010).
[114] 12 200-Ft. Reels of Super 8mm. Film, 413 U.S. at 125 (noting the "plenary power of Congress to regulate imports").
[115] *See, e.g.*, Hollingsworth v. Perry, 570 U.S. 693, 704 (2013).
[116] *See* Wiav Solutions LLC v. Motorola, Inc., 631 F.3d 1257, 1265 (Fed. Cir. 2010).
[117] Western Electric Co. v. Pacent Reproducer Corp., 42 F.2d 116, 118 (2d Cir. 1930); *see also* Spine Solutions, Inc. v. Medtronic Sofamor Danek USA, Inc., 620 F.3d 1305, 1309 (Fed. Cir. 2010) (holding that a licensee with only a "bare" nonexclusive license protecting the licensee's use of the patent, without a right to exclude others from practicing the patent, did not have standing).

that every co-plaintiff have standing to bring a patent infringement action,[118] a complainant is granted standing in an ITC patent infringement investigation as long as any other complaining party has standing. Commission Rule 210.12(a)(7) requires only that "at least one" complainant be the owner or exclusive licensee of the asserted patent, meaning a nonexclusive licensee—who would otherwise not have standing in federal district court—can have standing in an ITC investigation, as long as the patent owner or exclusive licensee is a co-complainant.[119]

A respondent's costs increase as they face more adversarial parties. The ITC standing rule broadens the scope of permissible parties relative to federal standing rules,[120] thereby requiring respondents in Section 337 investigations to respond to more parties, sometimes resulting in an entire industry facing proceedings with respect to a single patent,[121] which increases defense costs and the pressure to settle.

The ITC also allows patent trolls to prove a domestic industry by compelling third parties—whom they may have pressured with a threatened lawsuit to obtain a patent license from them—to provide the evidence toward a patent troll's domestic industry showing.[122] The ITC

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[118] See Stephen E. Kabakoff, Leveraging Standing and Domeistic Industry Activities of Third Parties in Patent-Based ITC Investigations, FINNEGAN (June 2014), https://www.finnegan.com/en/insights/articles/leveraging-standing-and-domestic-industry-activities-of-third.html#:~:text=If%20a%20party%20has%20standing,have%20standing%20in%20federal%20court [https://perma.cc/92EX-GHF8].

[119] *See* Certain Diltiazem Hydrochloride and Diltiazem Preparations, Inv. No. 337-TA-349, Order No. 35 (Sept. 2, 1994) ("The Commission has not precluded those who have no legally recognizable rights in the patent from appearing as a coparty complainant.").

[120] In federal court, plaintiffs cannot join multiple unrelated defendants together in a single action, as doing so would tend to significantly limits defendants' ability to control their defense strategy.

[121] *See* Chien, *supra* note 1, at 175.

[122] *See* SCHAUMBERG & HNATH (5th ed. 2024), *supra* note 61, at 69 nn.45–47 ("A showing under any one of subsections (A), (B), or (C) is sufficient to satisfy the domestic industry requirement. Because the statute requires the 'existence' of a domestic industry—as opposed to requiring that the complainant itself constitutes a domestic industry—longstanding precedent establishes that '[t]he domestic industry in a section 337 proceeding is comprised of the patentee and any licensees exploiting the patent.'") Certain Variable Speed Wind Turbines & Components Thereof, Inv. No. 337-TA-376 Remand, Comm'n Op. at 12 (Oct. 28, 1997); *see also* Certain Elec. Imaging Devices, Inv. No. 337-TA-726, Order No. 18: Initial Determination Granting Complainant's Motion No. 726-14 That It Satisfies the Econ. Prong of Domestic Indus. at 5 (Feb. 7, 2011). Thus, a patentee with no significant domestic activities or investments can satisfy the domestic industry based on the activities of licensees, regardless of whether the licensing program is production- or revenue-

has the authority to issue subpoenas to third parties under its rules,[123] and these subpoenas can be used by parties to compel the appearance of a witness or the production of documents,[124] even if the third party is not directly involved in the case. If the third party refuses to cooperate voluntarily, the complainant may file a motion with the ITC administrative law judge ("ALJ") to compel compliance with the subpoena.[125]

1.2 The ITC's Jurisdiction Covers Products, Leaving Fewer Constitutional Protections for Persons

Further weakening due process protections for respondents at the ITC is the unique jurisdiction the ITC has over things, and not just persons. In rem jurisdiction makes it easier for patent trolls to target anyone in an ITC forum, as the ITC's jurisdiction relates to products, not people or companies.

As Tom M. Schaumberg and Gary M. Hnath write:

> If the statutory elements are met, the distinctive features of Section 337 afford several advantages to those seeking to enforce their IP against infringing imported goods. One of the unique characteristics of Section 337 is that the ITC exercises jurisdiction over the accused products in addition to jurisdiction over the parties. That

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driven. *See* Certain High-Performance Gravity-Fed Water Filters & Prods. Containing the Same, Inv. No. 337-TA-1294, Initial Determination at 276 (Feb. 28, 2023) ("As with reliance on a licensee, it is well-established that domestic activities/investments of a complainant's subcontractor may be considered for purposes of domestic industry."); Certain Optical Disc Drives, Inv. No. 337-TA-897, Corrected Order Remanding the Investigation (Sept. 29, 2014).

[123] *See* 19 C.F.R. § 210.32 (2025).

[124] *See, e.g.*, Bill Watson, *What Does the ITC's Domestic Industry Test Really Do?*, ITC Pol'y Project (Mar. 11, 2019), https://www.rstreet.org/commentary/2019-3-11-what-does-the-itcs-domestic-industry-test-really-do/ [https://perma.cc/9E6C-92ZK] ("Another way Section 337 is being used contrary to its intended purpose is through the ITC's practice of allowing complainants to prove the existence of a domestic industry by subpoena. That is, the ITC will force an unwilling licensee to participate in the investigation and count that licensee's investments as if they were made by the patent owner . . . [I]f the licensee is being hauled in against its will, it's quite possible that the licensee's interests (that is, the domestic industry's interests) align more closely with respondents arguing that the complainant's patents are invalid or unenforceable. Indeed, it's possible in such a situation for the complainant to be the only party in the dispute that doesn't operate a domestic industry.").

[125] While litigants in federal court are subject to Federal Rule of Civil Procedure 19, which places limits on the joinder of certain parties, the ITC does not have such a rule. *See* Certain Point of Sale Terminals and Components Thereof, Inv. No. 337-TA-524, Order No. 31, 2005 WL 1262059, at *4 (Feb. 7, 2005).

> is, in Section 337 investigations, the ITC exercises in rem as well as in personam jurisdiction. As long as a respondent's products are being or have been imported into the U.S., or are in transit to the U.S., the ITC may grant relief related to those products. This broad jurisdiction is advantageous when seeking to join multiple infringers in one proceeding . . . . By contrast, an entity wishing to enforce its IP in U.S. district court may have to bring several separate lawsuits in multiple locations in order to satisfy the jurisdictional and venue requirements for each infringer. Although a foreign corporation may be sued for patent infringement in any judicial district, venue options for patent infringement cases against domestic corporations have been severely restricted in the wake of the U.S. Supreme Court's ruling in *TC Heartland v. Kraft Foods Group*.[126]

Under *TC Heartland*, a domestic corporation is now subject to suit in federal court only in a single federal district within the state in which it is incorporated or where the corporation has committed an act of infringement and has a regular and established place of business.[127] In federal court, plaintiffs also face additional venue selection restrictions under the America Invents Act of 2011, which limits the joinder of accused infringers to defendants whose liability arises out of the same accused products and who share common questions of fact.[128]

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[126] SCHAUMBERG & HNATH (5th ed. 2024), *supra* note 61, at 13–14 (citing TC Heartland L.L.C. v. Kraft Food Group Brands LLC, 581 U.S. 258 (2017)).

[127] *See TC Heartland*, 581 U.S. at 264; *see also In re* BigCommerce, Inc., 890 F.3d 978, 980 (Fed. Cir. 2018) (limiting domestic corporation's "residency" to a "single judicial district within that state where it maintains a principal place of business, or, failing that, the judicial district in which its registered office is located.").

[128] *See* 35 U.S.C. § 299. The America Invents Act amended 35 U.S.C. § 299 such that to join multiple defendants in a single patent civil action, the revised statute requires that (1) the same transaction or occurrence relating to infringement give rise to the cause of action against each defendant and (2) there be "questions of fact common to all defendants or counterclaim defendants." Leahy-Smith America Invents Act, Pub. L. No. 91-190, § 19(d)(1), 125 Stat. 332–33 (2011) (amending 35 U.S.C. 299(a)(1)–(2)). The amended § 299 also states that "accused infringers may not be joined in one action as defendants or counterclaim defendants, or have their actions consolidated for trial, based solely on allegations that they each have infringed the patent or patents in suit." *Id.* (amending 35 U.S.C. § 299(b)). Because § 299's heightened joinder requirements only apply to "civil actions" (patent lawsuits brought in federal court), § 299 does not affect the Commission's administration of § 337 investigations. As a result, § 337 allows patent owners filing a complaint against multiple parties to reduce net litigation costs by asserting their patents in a single investigation against multiple accused infringers, rather than in separate district

But because the ITC has jurisdiction over imported things, and not just people or corporate persons, none of the same restrictions that apply in federal court apply at the ITC, and so a single ITC investigation case can include infringement claims against multiple parties and products.[129]

1.3 The ITC Allows Fewer Defenses Based on Its Own Reading of Section 337

Counterclaims are not permitted under Section 337.[130] This means that every Section 337 investigation is effectively a "one-way street" in which only the complainant's claims will be adjudicated. Beyond that, the ITC has read the Process Patent Amendments Act of 1988 to preclude respondents from offering defenses that had not been available under the Tariff Act of 1930.[131] As a result, only federal district courts consider goods that are "materially changed by subsequent processes" or have become "a trivial and nonessential component of another product" to be non-infringing.[132] The ITC therefore does not recognize all the defenses available to defendants to patent claims in federal district court today.

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courts; *See also* SCHAUMBERG & HNATH (5th ed. 2024), *supra* note 61, at 296 ("Bringing multi-defendant patent lawsuits in U.S. district courts is now undoubtedly more difficult and expensive than prior to the AIA [America Invents Act].").

[129] *See* David A. Hickerson, *Is the International Trade Commission the Most Patent-Friendly Venue with a Complainant Success Rate near 90%?*, FOLEY AND LARDNER LLP (April 24, 2018), https://www.foley.com/en/insights/publications/2018/04/is-the-international-trade-commission-the-most-pat [https://perma.cc/HCV9-RTGQ] ("Jurisdiction for Section 337 cases is *in rem* rather than *in personam*, meaning it is over the accused product rather than a proposed respondent. Because there are no forum issues to resolve related to personal jurisdiction or venue, a single Section 337 case can address infringement by multiple parties and products. By comparison, forum restrictions [in] U.S. district courts with the anti-joinder limitations of the America Invents Act and venue restrictions of TC Heartland v. Kraft Foods, 137 S. Ct. 1514 (2017).") .

[130] *See* 19 U.S.C. § 1337(c) (providing that any pleaded counterclaim must be removed to federal court).

[131] *See* Kinik Co. v. Int'l Trade Comm'n, 362 F.3d 1359, 1362 (Fed. Cir. 2004) ("The Commission relied for its interpretation on the Process Patent Amendments Act of 1988, which states, in adding § 271(g) to Title 35, that "[t]he amendments made by this subtitle shall not deprive a patent owner of any remedies available ... under section 337 of the Tariff Act of 1930, or under any other provision of law." Pub. L. 100-418, § 9006(c). The Commission held that the new defenses under § 271(g) were not intended to be available in ITC actions, for to hold otherwise would deprive the patent owner of a remedy available under the Tariff Act.").

[132] Kinik Co. v. Int'l Trade Comm'n, 362 F.3d 1359, 1362 (Fed. Cir. 2004).

2. Lax Standards for Review of ITC Opinions

Beyond all these procedural advantages for patent troll complainants at the ITC are the rules that help insulate its decisions from higher court review. ITC factual findings are reviewed under the relatively forgiving "substantial evidence" standard,[133] under which the Federal Circuit "must affirm a Commission determination if it is reasonable and supported by the record as a whole, even if some evidence detracts from the Commission's conclusion."[134] Appeals of the ITC's legal conclusions, such as granting injunctive relief, are reviewed under the relatively lax standard in which the ITC's decisions stand unless found to be "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law."[135] As Tom Schaumberg writes, as a result of these lenient review standards, "[o]nce the Commission has selected a remedy, judicial review is limited."[136]

2.1 Success Rate for Complainants at the ITC

Unsurprisingly, all of this leads to a remarkably high success rate for complainants at the ITC.

A comprehensive study by Robert Hahn and Hal Singer analyzed the high rates of success for ITC complainants and found as follows:

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[133] *See* SCHAUMBERG (3rd ed. 2016), *supra* note 1, at 191 ("Commission factual findings are reviewed under the 'substantial evidence' standard. *See* Enercon GmbH v. Int'l Trade Comm'n, 151 F.3d 1376, 1381 (Fed. Cir. 1998) . . . Under this standard, the [Federal Circuit] may not 'conduct a de novo investigation of the evidence on the record before it and reach an independent conclusion; rather, the court's review is limited to deciding whether there is sufficient evidence in the record considered as a whole to support the [Commission's] findings. The mere fact that a reasonable person might reach some other conclusion is insufficient for [the Federal Circuit] to overturn the [Commission's] conclusions.' Akzo N.V. v. Int'l Trade Comm'n, 808 F.2d 1471, 1479 (Fed. Cir. 1986).").

[134] Philip Morris Prods. S.A. v. U.S. Int'l Trade Comm'n, 63 F.4th 1328, 1343 (Fed. Cir. 2023) (quoting Spansion, Inc. v. U.S. Int'l Trade Comm'n, 629 F.3d 1331, 1344 (Fed. Cir. 2010)).

[135] Spansion, Inc. v. U.S. Int'l Trade Comm'n, 629 F.3d 1331, 1358 (Fed. Cir. 2010); *See also* Hyundai Elecs. v. U.S. Int'l Trade Comm'n, 899 F.2d 1204, 1207–09 (Fed. Cir. 1990) (holding that the standard of review for an ITC decision on remedy is whether that "choice of remedy was arbitrary, capricious, abuse of discretion, or otherwise not in accordance with law"); Gamut Trading Co. v. U.S. Int'l Trade Comm'n, 200 F.3d 775, 784 (Fed. Cir. 1999) ("Although not insulated from judicial review, the Commission's choice of remedy shall be sustained unless it is arbitrary, capricious, or an abuse of the Commission's discretion.").

[136] SCHAUMBERG (3rd ed. 2016), *supra* note 1, at 157.

> The higher initial rate of success for patent holders at the ITC might be attributed to selection bias if the ITC heard cases with particularly strong infringement claims. For example, this could be true if ITC cases typically involved outright piracy of patented goods by foreign producers. We have found no evidence to support that hypothesis. . . . [A] higher rate of reversal for ITC decisions involving findings of patent infringement compared to other ITC and district court decisions would indicate bias in favor of patent holders. . . [T]he data support the hypothesis that district court decisions are more accurate and that ITC decisions are biased in favor of patent holders . . . [The data] shows that ITC cases decided in favor of the respondent have a higher survival rate on appeal (74%) than do ITC cases decided in favor of the complainant (52%). The survival rate of ITC cases in favor of respondents is nearly identical to the overall survival rate of appealed district court cases (74% for the ITC compared to 75% to 80% for district courts). In contrast, when the ITC rules in favor of a complainant, the survival rate is much lower than for district court (52% for the ITC compared to 75% to 80% for district courts). This suggests that ITC rulings in favor of a complainant are less reliable predictors of ultimate outcomes than rulings in favor of respondents, which is consistent with our hypothesis of ITC bias.[137]

Others have found the same trend to have existed in the past,[138] and have sustained into the present time.[139]

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[137] Robert W. Hahn & Hal J. Singer, *Assessing Bias in Patent Infringement Cases: A Review of International Trade Commission Decisions*, 21 HARV. J.L. & TECH 457, 477–79 n.111 (2008) (finding that "[T]he ITC grants injunctive relief more than three times as often as the district courts do (96% versus 29%). This difference is likely to have a large impact on negotiations between a patent holder and an accused infringer.").

[138] *See* Harvey Kaye et al., *The Jurisdiction Paradigm between the United States International Trade Commission and the Federal District Courts*, 64 J. PAT. OFF. SOC'Y 118, 118 (1982) ("[H]olders of U.S. patents have prevailed in about 65%[2] of the final decisions of the Commission on the issue of patent validity. In contrast, in the federal district courts, patent holders prevail in approximately 40 to 45% of those cases in which the issue of validity is litigated.").

[139] *See* Hickerson, *supra* note 129 ("There are many advantages to pursuing relief for patent infringement in the International Trade Commission (ITC) compared to U.S. district court, but one that receives little attention is the success rate for complainants (plaintiffs). The rate has been climbing for years and reached nearly 90% for cases

2.2 The Fundamental Unfairness of the ITC's Sole Import Ban Remedy

The only remedy the ITC is allowed to apply in a patent infringement investigation is an exclusion order that directs U.S. Customs and Border Protection to exclude articles from entry into the U.S.[140] Not only is this the sole remedy allowed to the ITC under the law, but it can be uniquely applied to non-parties as well.[141] Not surprisingly, injunctive relief is awarded by the ITC 100% of the time when violations are found,[142] as all complainants need to do to get an exclusion order at the ITC is show a violation of Section 337. With such a blunderbuss remedy being the only result possible, respondents are further pressured to settle, as the costs of a loss, however undeserved, would amount to the death penalty for the products they sell.[143]

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decided on the merits in 2017 . . . In 2017 the ITC found a violation in 88% of the cases decided on the merits. (*See Section 337 Statistics: Number of Cases in Which a Determination is Made on the Merits by Fiscal Year*, U.S. INT'L TRADE COMM'N, https://www.usitc.gov/intellectual_property/337_statistics_number_cases_which_violation.htm (last visited March 1, 2025).) Nearly all of these violations presumably were based on patent infringement as the vast majority of Section 337 cases allege solely patent infringement. (*See Section 337 Statistics: Types of Unfair Acts Alleged in Active Investigations by Fiscal Year*, U.S. INT'L TRADE COMM'N, https://www.usitc.gov/intellectual_property/337_statistics_types_unfair_acts_alleged_active.htm (last visited March 1, 2025) (showing 102 of 117 active cases in 2017 involved solely patent infringement allegations).) Last year was not a fluke. Complainants' success rate in cases decided on the merits has been trending upward for some time. In 2011 the rate was under 40%; in 2013 it crept to 47%; in 2015 it was 63%; and now is near 90% . . . It is well known that the ITC affords strategic advantages for patent owners in defining and litigating patent infringement cases to set up an eventual settlement. Recent statistics showing the high rate of success for complainants should afford patent owners even more bargaining power in settlement discussions and less worry if those discussions fail.").

[140] *See* 19 U.S.C. § 1337(d).

[141] *See* SCHAUMBERG (3rd ed. 2016), *supra* note 1, at 13 ("The most common type of relief granted under the statute is an exclusion order. That order can take one of two forms. A limited exclusion order (LEO) directs Customs to bar infringing items originating from a specific source . . . The far more powerful alternative is a general exclusion order (GEO), which applies to all infringing goods, regardless of source. That is, the order is enforceable against all imported infringing products, including those imported by or for entities that were not parties to the investigation . . . *There is simply no equivalent in U.S. district court, as an injunction in that forum cannot extend to non-parties*.") (emphasis added).

[142] *See* Chien, *supra* note 110, at 70–71 ("[P]laintiffs had better odds of getting injunctive relief from the ITC than from district court (100 percent ITC injunction rate versus a 79 percent district court injunction rate).").

[143] *See* Hickerson, *supra* note 129 ("[T]he ITC offers powerful remedies. The default remedy in a Section 337 case is an exclusion order which is comparable to an injunction issued by a district court. An exclusion order prohibits infringing products

Meanwhile, district courts "may grant injunctions" under 35 U.S.C. § 283, but the Supreme Court clarified in *eBay v. MercExchange* that, in order to avoid unfairness and great harm to the public interest, a permanent injunction should only be awarded under that statute if a plaintiff can show (1) irreparable injury; (2) the inadequacy of remedies at law, such as money damages; (3) that the balance of hardships warrants an equitable remedy; and (4) that the public interest would not be disserved by a permanent injunction.[144] But the ITC has determined it is not bound by the Supreme Court's decision in *eBay*, on the grounds that the ITC, when it imposes an import ban, is not imposing a remedy under 35 U.S.C. § 283, but rather under the federal trade statutes.[145] In doing so, it ignored[146] what the Supreme Court considered in its decision, namely the injury done to the public interest when productive American companies, that sell products people want to see, are wholly banned.[147] Indeed, in his *eBay* concurrence, Justice Kennedy explained

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from entering the United States. The threat of this extreme remedy often leads to larger settlements for patent owners. By comparison, in district court injunctions are no longer an automatic remedy for patent infringement after the Supreme Court's decision in *eBay v. MercExchange* . . . .").

[144] eBay Inc. v. MercExchange, LLC, 547 U.S. 388, 391 (2006).

[145] *See, e.g.*, Certain Baseband Processor Chips and Chipsets, Inv. No. 337-TA-543 n. 230 (June 19, 2007) ("As for the argument that the Commission is required to follow precedent on injunctions established in eBay Inc. v. MercExchange, LLC . . . The Commission, in interpreting its organic statute, takes the position that the Tariff Act of 1930, as amended, represents a legislative modification of the traditional test in equity . . . [Therefore] it is unnecessary to show irreparable harm to the patentee in the case of infringement by importation. . . . The difference between exclusion orders granted under the Tariff Act of 1930, as amended, and injunctions granted under the Patent Act, 35 U.S.C. § 283, is reasonable in light of the long-standing principle that importation is treated differently than domestic activity.").

[146] *See* Sapna Kumar, *The Other Patent Agency: Congressional Regulation of the ITC*, 61 FLA. L. REV. 529, 532 (2009) ("[T]he ITC . . . issues [exclusion orders] whenever there is a finding of infringement, and it downplays policy concerns when determining their scope. The rationale for this approach, in part, is the assumption that the strong enforcement of patent rights through injunctive relief promotes innovation. But the ITC overlooks the direct harm that an exclusion order can cause to competitors and consumers.").

[147] On June 4, 2013, the Obama Administration issued a report recommending reforms to stem the abuse of patent trolls, and asked Congress to amend the law such that the principles of the Supreme Court's *eBay* decision would apply to the ITC. *See* EXEC. OFFICE OF THE PRESIDENT, PATENT ASSERTION AND U.S. INNOVATION 3 (2013), https://obamawhitehouse.archives.gov/sites/default/files/docs/patent_report.pdf (recommending that Congress "[c]hange the . . . standard for obtaining an injunction to better align it with the traditional four-factor test in eBay Inc. v. MercExchange, to enhance consistency in the standards applied at the ITC and the district courts."). *See also* Press Release, Office of the Press Sec'y, The White House, FACT SHEET:

how patent trolls can use the threat of a product ban to unfairly pressure settlements, writing that:

> An industry has developed in which firms [patent trolls] use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.[148]

Oddly, the ITC itself has addressed this kernel of unfairness regarding total bans on the importation of products when the allegedly infringing patent covers only one small portion of a product that contains many more non-infringing components. But it has done so in an exceedingly limited way. As Robert Hahn and Hal Singer have noted:

> One way the ITC considers the condition [in which a patent infringes only one small component of a much larger product] is by distinguishing exclusion orders that apply to the infringing article itself from exclusion orders that apply to products that contain the infringing article as a component ("downstream" exclusion orders). When a complainant seeks to exclude downstream products, the ITC applies a balancing test. The ITC originally formulated the test in the *Erasable Programmable Read Only Memories, Components Thereof, Products Containing Such Memories, and Processes for Making Such Memories* (EPROM) case, which was upheld by the Federal Circuit in *Hyundai Electronics Industries Co. v. U.S. International Trade Commission*. The *EPROM* test requires consideration of several factors, including the value of the component

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White House Task Force on High-Tech Patent Issues, Legislative Priorities and Executive Actions (June 4, 2013), https://obamawhitehouse.archives.gov/the-press-office/2013/06/04/fact-sheet-white-house-task-force-high-tech-patent-issues [https://perma.cc/8RJL-W23D].

[148] *eBay*, 547 U.S. at 396 (Kennedy, J., concurring).

> compared to the value of the downstream product, the difficulty of enforcement, the marginal value of downstream exclusion to the complainant, the incremental detriment to the respondent, the burden on third parties, and the possibility of evasion absent the exclusion order. Ostensibly, the *EPROM* test is designed to allow the ITC to circumscribe an exclusion order in the interests of fairness by crafting a remedy with "sensitivity and objectivity," as described by the Federal Circuit in Hyundai. However, the *EPROM* test applies only when an infringing article is incorporated into a downstream product. It does not apply in situations where a single article encompasses many inventions and the patented invention contributes only insignificant incremental value. For example, an integrated circuit may implicate hundreds of patents, but if it is found to infringe a single patent, the integrated circuit is treated as an infringing article. Because the *EPROM* test does not apply in this situation, the ITC is likely to grant an exclusion order.[149]

Mark Lemley and Carl Shapiro have shown that awarding injunctive relief to patent holders (especially in the form of an import ban), even when patents are infringed, often harms the public good in significant ways, and their analysis is worth considering in some detail. As Lemley and Shapiro explain:

> [W]e show using bargaining theory that the threat to obtain a permanent injunction greatly enhances the patent holder's negotiating power, leading to royalty rates that exceed a natural benchmark range based on the value of the patented technology and the strength of the patent. Such royalty overcharges are especially great for weak patents covering a minor feature of a product with a sizeable price/cost margin, including products sold by firms that themselves have made substantial research and development investments . . . . The threat that a patent holder will obtain an injunction that will force the downstream producer to pull its product from the market

[149] Hahn & Singer, *supra* note 137, at 485–86 (citing Erasable Programmable Read Only Memories, Components Thereof, Products Containing Such Memories, and Processes for Making Such Memories, Pub. 2196, Inv. No. 337-TA-276 (May 1989); Hyundai Electronics Industries Co. v. U.S. International Trade Commission. 899 F.2d 1204, 1209 (Fed. Cir. 1990)).

> can be very powerful. These threats can greatly affect licensing negotiations, especially in cases where the injunction is based on a patent covering one small component of a complex, profitable, and popular product. . . . We show how the threat that the patent holder will obtain an injunction causes the negotiated royalty rate to exceed the true economic contribution of the patent holder, especially if the value of the patented technology is small relative to the value created by the product as a whole. We also explain why the threat of an injunction is especially troublesome in the case of weak patents, i.e., patents that may well be found invalid if actually litigated.[150]

Lemley and Shapiro go on to explain:

> In the real world, it is common for patent defendants to settle cases for more money than the patentee could have won in damages and license fees, simply to avoid the threat of an injunction shutting down the core product. . . . A microprocessor may include 5,000 different inventions, some made by the manufacturer and some licensed from outside. If a microprocessor maker unknowingly infringes a patent on one of those inventions, the patent owner can threaten to stop the sale of the entire microprocessor until it can retool its entire fab to avoid infringement. Small wonder, then, that patentees regularly settle with companies in the information technology industries for far more money than their inventions are actually worth. These companies are paying holdup money to avoid the threat of infringement. That is not a legitimate part of the value of a patent; it is a windfall to the patent owner that comes at the expense not of unscrupulous copyists but of legitimate companies doing their own R&D. . . . The Federal Circuit has concluded that this "additional leverage in licensing" is "a natural consequence of the right to exclude and not an inappropriate reward" to a patentee. We respectfully but vigorously disagree with the court. The leverage comes from the ability of a patent owner to capture value that has nothing to do with its

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[150] Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 1991–93 (2007).

> invention. It results from the inability of the accused infringer to separate the infringing component from the noninfringing ones after the fact.[151]

Lemley and Philip Weiser elaborate on these points in another article, writing:

> Injunction threats in component industries therefore often involve a strong element of holdup where the defendant has already invested heavily to design, manufacture, market, and sell the product with the allegedly infringing feature. The problem is [that] the scope of the injunction is not well tailored to the nature of the infringement (i.e., it will affect a wide array of noninfringing component parts). In these circumstances, courts would be well advised to impose a liability rule rather than a property rule. . . . In short, where injunctions cannot be well tailored to the scope of the property right at issue but necessarily restrain the use of property not owned by the plaintiff, those consequences can overwhelm the benefits of property rules in enforcing legal rights. . . . In our view, there are a number of cases arising under patent law that should not qualify for injunctive relief, including possibly the eBay case itself, in which a firm not practicing a patent sought to use the threat of an injunction as a strategic tool to demand extra licensing fees. . . . The unifying theme of all these cases is that courts cannot easily tailor injunctions to forbid only the prohibited conduct. In these situations, injunctive relief can systematically overcompensate plaintiffs and overdeter defendants, with significant negative consequences for innovation and economic growth. Stated simply, where property rules have pernicious consequences, *liability* rules look better by comparison. . . . [T]he founding vision of intellectual property (IP) viewed owners of governmentally conferred rights in patent and copyright—as the beneficiaries of a government license and as entitled only to remedies sufficient to encourage innovation. Over the last several decades, however, more and more courts and commentators have sought to align the rights of IP holders with those of real property

[151] *Id.* at 2009–10 (quoting MercExchange, L.L.C. v. eBay, Inc., 401 F.3d 1323, 1339 (Fed. Cir. 2005), vacated, 547 U.S. 388 (2006)).

> owners, arguing for pervasive use of property rules. . . . The fact that a right cannot be clearly defined means that injunctive relief is a remedy with significant error costs. . . . [C]ourts having found infringement may tend to err on the side of overprotection, expanding the injunction against a "bad actor" to make sure the property right is fully protected. The result is that property rules will tend to enjoin lawful as well as unlawful conduct in cases where courts err in defining the scope of an uncertain right. As an analogy in real property, imagine a court unsure of where the boundaries lay protecting a property owner against trespass by enjoining anyone from coming "too close" to the property line. In practice, the problem is significantly worse than simply our inability to clearly define the rights we protect with property rules. Even in many cases with clear property rights, the law cannot limit the scope of the injunction to cover only infringement of the right. Sometimes, this will be a result of the physical nature of the goods—your patented circuit has already been built into my semiconductor chip, and an injunction that prevents me from selling the circuit also prevents me from selling all the noninfringing aspects of the chip (at least until I can retool my fab or redesign the chip some years from now).[152]

Deborah Platt Majoras, the former Chairman of the FTC, made similar remarks in 2006, stating that an injunction may allow a patent owner to get well in excess of the true value of the invention, as, for example, when a patent troll "that sells no products and licenses non-exclusively asserts its patent after the accused infringer has sunk substantial costs into design, development, and commercialization of the accused product."[153] The same year, Justice Kennedy, in his concurrence in *eBay*, joined by three other justices, stated that:

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[152] Lemley & Weiser, *supra* note 89, at 783–85, 794.

[153] Deborah Platt Majoras, *A Government Perspective on IP and Antitrust Law, Remarks at The IP Grab: The Struggle Between Intellectual Property Rights and Antitrust in the American Antitrust Institute's Annual National Conference*, FED. TRADE COMM'N, (June 21, 2006), http://www.ftc.gov/speeches/majoras/060621aai-ip.pdf [https://perma.cc/YL7A-ZYHQ]. In 2012, the Chairman of the Federal Trade Commission also remarked on the state of the ITC, expressing concern the ITC would turn "a forum for patent hold-up, patent gaming, and patent mischief." Jon Leibowitz, *Remarks at the Sixth Annual Georgetown Law Global Antitrust*

> [T]he nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases. . . . When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.[154]

In sum, when a patent covers a small component of a larger product, the threat of injunctive relief in the form of a product ban can lead to significantly inflated settlements, the costs of which end up being passed on to consumers in the form of higher prices. The information technology industry, in particular, consists of products with hundreds of components, and so it is particularly susceptible to settlement pressures at the ITC. It is unsurprising, then, that the information technology industry is the prime target for patent trolls at the ITC.[155]

Enforcement Symposium TRADE COMM'N (Sept. 19, 2012), http://www.ftc.gov/speeches/leibowitz/120919jdlgeorgetownspeech.pdf [https://perma.cc/K6FD-ASZ4].

[154] eBay, Inc. v. MercExchange, 547 U.S. 388, 396–97 (2006) (Kennedy, J., concurring).

[155] *See* SCHAUMBERG & HNATH (5th ed. 2024), *supra* note 61, at 6 n.16 ("In 2022, over half of newly filed investigations involved high-tech articles, including computer and telecommunications products, consumer electronics, and LCD/TVs. . . . The ITC's annual statistics for technology areas of accused products indicated that 54 percent of investigations involved these three categories of products, whereas pharmaceuticals and medical devices accounted for only 12 percent of new filings in 2022.") (citing *Section 337 Statistics: Technology Areas of Accused Products (% over the Years)*, U.S. INT'L TRADE COMM'N, https://www.usitc.gov/intellectual_property/337_statistics_types_accused_products_eew_filings.htm.)"); Colleen V. Chien & Mark A. Lemley, *Patent Holdup, the ITC, and the Public Interest*, 98 CORNELL L. REV. 1, 24–25, 27 n.142 (2012) ("Holdup is a greater risk in [information technology] industries not only because more patents are asserted there but also because those patents tend to cover small parts of much larger products. . . . [A] patent on a particular circuit layout may constitute only a tiny fraction of the value of a microprocessor that uses the layout, but an exclusion order will exclude the microprocessor as a whole, preventing the defendant from importing both the small infringing element and the much larger noninfringing elements. The social harm in this latter case is disproportionate to the social benefit, as many productive, noninfringing components will be shut down to give the patentee control over only a single, small component. . . . [NPEs (patent trolls)] disproportionately bring cases involving complex, multicomponent technologies. Eighty-six percent of ITC cases filed by NPEs between 2005 and 2011 were in high-tech sectors [in which] 86% of ITC NPE cases involved mobile

As Mark Lemley and Richard Melamed have written, the very nature of information technology has caused an even greater proliferation of overlapping patents, as the technology itself requires overlapping code and integrated circuits:

> The substantive reason there are too many actual and potential trolls is that there are too many patents in the IT space. IT products are complex, multi-component devices; making one might require integrating thousands of different ideas and parts. The [USPTO] has been notoriously lax in granting patents on even small advances in the industry. And the IT industry is fast-moving; companies develop technology and bring it to market quickly. . . . As a result, firms commonly invent technologies that are claimed by previously filed patent applications that have not yet resulted in issued patents and often have not yet even been published. Simultaneous invention and inadvertent infringement are thus ubiquitous. One study found that, in software and computer technology, roughly 97% of patent suits are filed against independent inventors, not copiers.[156]

Prominent congressional supporters of the 1988 amendments thought the ITC was going to protect, not weaken, "America's economic edge [in] its technology and its innovation."[157] Yet the technology sector has been hardest hit by the unintended effects of those very amendments.

2.3 How the ITC's Blunderbuss Remedy Fails Any Reasonable Measure of the Proper Valuation of Innovation

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communications, semiconductors, consumer electronics, PCs, networking, storage, software, or ecommerce technologies, in contrast to ITC cases in general, 63% of which involved these sectors."); Lemley & Weiser, *supra* note 89, at 797 ("The patent system is designed with a paradigm invention in mind—a new device or machine covered by a single patent. Historically, this paradigm was a fairly accurate portrayal of the typical patent. In the last few decades, however, that has begun to change markedly. More and more products incorporate not a single new invention but a combination of many different components, each of which may be the subject of one or more patents. In the information technology sector in particular, modern products such as microprocessors, cell phones, or memory devices can easily be covered by dozens or even hundreds of different patents.").

[156] Mark A. Lemley & A. Douglas Melamed, *Missing the Forest for the Trolls*, 113 COLUM. L. REV. 2117, 2148–49 (2013).

[157] 134 CONG. REC. 20086 (daily ed. Aug. 3, 1988) (statement of Sen. Lautenberg).

The ITC is not authorized to impose damage awards, which can be flexibly calibrated to more precisely fit the penalty to the degree of harm that might be caused by a given instance of patent infringement.[158] The standards governing patent damage awards in federal court already tend to vastly exceed any actual injury caused by the patent infringement, making the ITC's import ban remedy seem even more outlandish by comparison.

While the Federal Circuit has written that "the patent holder should only be compensated for the approximate incremental benefit derived from his invention,"[159] in reality, this does not tend to happen.[160] As Christopher Storm writes:

> [P]atent damage inquiries must focus on the inventor's lost value, not the value gained or created by infringers. Patent owners are only entitled to compensatory damages, not damages based on theories of restitution or unjust enrichment. "[T]he purpose of compensatory damages is not to punish the infringer, but to make the patentee whole." . . . Courts are not authorized . . . to inflate compensatory damages rates based on a desire to punish or to create additional deterrence. . . . Setting compensation at an amount lower than the value the inventor lost would be unfair to inventors, whereas setting compensation at an amount higher than the value the inventor lost would be unfair to those responsible for compensating the inventor. . . . [Yet] [t]oday, courts rely on indirect measurement methods when setting royalty rates. Instead of directly measuring the "value of what was taken" from the inventor, as reflected by the inventor's contribution, courts set royalty rates by

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[158] *See* Bio-Technology General Corp. v. Genentech, Inc., 80 F.3d 1553, 1564 (Fed. Cir. 1996) ("Importantly, however, the ITC does not have the power to award damages for patent infringement. This form of relief may only be provided by the United States District Courts, which have original and exclusive jurisdiction over patent infringement cases. See 28 U.S.C. § 1338(a).").

[159] Ericsson, Inc. v. D-Link Sys., Inc., 773 F.3d 1201, 1233 (Fed. Cir. 2014); 35 U.S.C. § 284 also expressly states that patent damages are compensatory only, providing that "Upon finding for the claimant the court shall award the claimant damages *adequate to compensate* for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.") (emphasis added).

[160] *See* Brian J. Love, *The Misuse of Reasonable Royalty Damages as a Patent Infringement Deterrent*, 74 MO. L. REV. 909, 912 (2009) ("Although traditional black-letter patent law states that damages for patent infringement are intended only to compensate patent owners, the Federal Circuit has shaped the law of reasonable royalty damages to incorporate an additional deterrent function.").

> measuring the value of the infringer's implementation.[161]

Storm sets out the many ways in which people other than the inventor contributed to the commercial success and profitability of the patented product:

> Bringing a successful technology product to market at scale is a team effort, not the inevitable result of having access to a patented invention. The Marketer, for example, is responsible for understanding customer needs and identifying the opportunity for success at scale. The Builder, meanwhile, brings the technology from prototype to scale production. The Advertiser curates a large market of buyers to consume this scale production, and the Seller completes the process by selling and delivering products to each customer. In most product stories, these technology commercialization roles contribute more to a company's success at scale than the [inventor's] one-time contribution.[162]

History is replete with examples of how the commercialization of innovations overwhelmingly rely on much more than just the kernel of the idea protected by the patent. One illustration of the vast chasm between an abstract idea for a product and the actualization of the mass production of that product can be found in Jamie Holms' *12 Seconds Of Silence: How a Team of Inventors, Tinkerers, and Spies Took Down a Nazi Superweapon*, which recounts the history of Merle Tuve's development of the proximity fuse during World War II, a miniaturized fuse placed inside ballistic projectiles that used radio waves to detect nearby targets and explode in their vicinity:

> [Merle] Tuve was driving to lunch with the president of Raytheon, Lawrence Marshall, when he put in Section T's first order for mass production. Ten thousand dollars, he figured, should buy about two thousand rugged . . . tubes. "You know, Tuve," Marshall replied, "I am going to have to try to introduce you a little to the facts of life in manufacturing. Whenever we make a tube we throw away the first hundred or two hundred thousand dollars' worth of those tubes. We grind them

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[161] Christopher S. Storm, *Measuring the Inventor's Contribution*, 21 U. N.H. L. REV. 167, 192–93, 195 (2022) (quoting Pall Corp. v. Micron Separations, Inc., 66 F.3d 1211, 1223 (Fed. Cir. 1995)).
[162] *Id.* at 192–93, 225 (2022).

> up. They don't meet the specs. You have to run a procedure and develop a quality control, but the individual technicians make mistakes until it's gotten into a routine . . . especially when you are handling small things like these . . . tubes." Prototype fuse parts that worked, it turned out, didn't guarantee all that much when it came to getting those prototypes produced in bulk. As vice chairman Larry Hafstad quickly learned, the research methods Section T knew well were "just the opposite of what you do in the production cycle." While experimenting, scientists struggle to get their contraptions to work once. But in production, the job is to prevent a device from ever failing. Researchers, Hafstad said, "collect their apparatus, tune it up, spend a lot of time working on it, take a set of readings, and get a Nobel Prize." Once the device works, "the job is done." But volume production is a game of percentages. What's more, the rigors of battlefield conditions demanded a higher standard of dependability. Fuses would have to work after being dropped sideways in cargo holds, frozen in Norway, baked in Hawaii, and soaked in the humid airs of the Philippines.[163]

Indeed, substantially more pages in the book are devoted to the problems that had to be overcome in *mass producing* the proximity fuse than in the mere conception of it.

Similarly, as Chris Miller writes in *Chip War: The Fight for the World's Most Critical Technology*:

> The Nobel Prize for inventing the transistor went to Shockley, Bardeen, and Brattain. Jack Kilby later won a Nobel for creating the first integrated circuit; had Bob Noyce not died at the age of sixty-two, he'd have shared the prize with Kilby. These inventions were crucial, but science alone wasn't enough to build the chip industry. The spread of semiconductors was enabled as much by clever manufacturing techniques as academic physics. Universities like MIT and Stanford played a crucial role in developing knowledge about semiconductors, but the chip industry only took off because graduates of these institutions spent years tweaking production processes to

[163] JAMIE HOLMS, 12 SECONDS OF SILENCE: HOW A TEAM OF INVENTORS, TINKERERS, AND SPIES TOOK DOWN A NAZI SUPERWEAPON 94–95 (2020).

> make mass manufacturing possible. It was engineering and intuition, as much as scientific theorizing, that turned a Bell Labs patent into a world-changing industry.[164]

As Mark Lemley has written, "[e]ven if there are no other relevant patents, the defendant's know-how, materials, and marketing efforts almost always contribute some value, and usually the most significant part of the value of an infringing product."[165] Yet, as he writes elsewhere:

> [I]f the inventor of the intermittent windshield wiper claims a windshield wiper, his damages in a lawsuit will be measured by the sale of windshield wipers. But if he claims the identical invention as a car with an intermittent windshield wiper as an element, the royalty base is the sale of cars, a much larger number. As a result, patent plaintiffs tend to draft their claims to cover whole products, not the pieces they actually contribute, and they are inclined to sue downstream integrated manufacturers rather than upstream component suppliers.[166]

At the ITC, these injustices are magnified, as the only penalty for infringement, regardless of the potentially minimal contribution of the inventor to the mass production and marketing of the product, is a total ban on the product's sale in America.

IV. THE ITC IS NOW A HAVEN FOR PATENT TROLLS

All of this has now made the ITC a haven for patent trolls. The domestic industry requirement is supposed to serve a gatekeeping function and reserve the ITC forum for productive American companies.[167] But, as explained above, the ITC has essentially

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[164] CHRIS MILLER, CHIP WAR: THE FIGHT FOR THE WORLD'S MOST CRITICAL TECHNOLOGY 45–46 (Scribner 2022).
[165] Mark Lemley, *Distinguishing Lost Profits from Reasonable Royalties*, 51 WM. & MARY L. REV. 655, 663 (2009).
[166] Mark A. Lemley, *Point of Novelty*, 105 NW. U.L. REV. 1253, 1274 (2011).
[167] *See* SCHAUMBERG & HNATH (5th ed. 2024), *supra* note 61, at 68 n.41 ("A distinguishing characteristic of Section 337, consistent with its nature as a trade statute, is the requirement that the relief provided by the statute be available only to entities maintaining an industry in the United States. See Certain Artificial Eyelash Extension Sys., Prods., & Components Thereof, Inv. No. 337-TA-1226, Comm'n Op. at 19 (Oct. 24, 2022) ("the 'domestic industry' requirement will serve as a

abandoned the domestic industry standard's gatekeeping function, and as a result patent trolls have flocked to the ITC,[168] so much so that the ITC no longer specializes in dealing with commonly understood unfair trade practice violations, like dumping and foreign government subsidies to foreign industries, but rather serves almost exclusively as a forum for patent infringement claims,[169] and for especially weak claims brought by patent trolls.[170]

As Christopher Storm has written, "Since PAEs [patent assertion entities, or patent trolls] make no effort to commercialize their inventions, they suffer no damages when their patents are infringed—other than the nebulous lost opportunity to seek a license."[171] Not only do patent trolls suffer no real damages, properly understood, but they also seek import bans at the ITC when such bans could not possibly benefit them by preventing competition with infringing goods—because the patent trolls themselves produce no goods at all. Clearly,

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gatekeeper to prevent the excessive use of the ITC under section 337")."); *see also* Certain Stringed Musical Instruments & Components Thereof, Inv. No. 337-TA-586, Initial & Recommended Determinations at 25 (Dec. 3, 2007) (aff'd on Commission review) (same).

[168] *See* DUAN, *supra* note 60, at 2–3 ("The ITC's authority under section 337 has made it into one of the busiest patent tribunals in the United States. It adjudicates dozens of complaints per year and is second only to the District of Delaware in terms of the number of patent infringement trials it conducts. The agency's popularity as a patent dispute forum can be attributed to a number of factors: speedy timelines for resolution of investigations, powerful available remedies and arguably lower costs of litigation [for complainants], among other things."); *see also* Bill Watson, *The ITC in 2019: America's Administrative Patent Court*, R STREET INST. (Feb. 24, 2020), https://www.rstreet.org/commentary/2020-2-24-the-itc-in-2019-americas-administrative-patent-court/ [https://perma.cc/D55J-D8JD]; Hickerson, *supra* note 129.

[169] *See* SCHAUMBERG & HNATH, *supra* note 61, at 21–22, 22 n.4 ("Although Section 337 has always proscribed unfair methods of competition and unfair acts, its impact has been focused mostly on the area of patent infringement by imported products. . . . For fiscal years 2017–2022, for example, patent infringement was alleged as the sole unfair act in 94.16 percent of all active investigations. See Section 337 Statistics, U.S. Int'l Trade Comm'n, https:/usitc.gov/intellectual_property/337_statistics.htm.).").

[170] *See* DUAN, *supra* note 60, at 3 (citing *International Trade Commission Patent Litigation: Hearing Before the Subcomm. on Cts., Intell. Prop., and the Internet of the H. Comm. on the Judiciary*, 114th Cong. 3–4 (2016) (statement of Rep. Jerrold Nadler, Ranking Member, H. Comm. on the Judiciary)) ("[T]he ITC is potentially an attractive forum particularly for those with weaker patent cases, who are perhaps more reliant on procedural advantages in order to bring successful cases. In particular, many policy experts including the ITC itself have worried about use of the ITC by non-practicing entities, namely firms that offer no products and services but only assert patents in hopes of extracting settlement payments or licensing revenues.")

[171] Storm, *supra* note 161, at 216.

patent trolls are at the ITC for other reasons, namely to leverage the threat of its draconian exclusion orders to coerce financial settlements.

Various studies have concluded there is a disproportionate patent troll presence at the ITC.[172]

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[172] *See, e.g.*, Joe Galvin, *The International Trade Commission, Though Designed to Protect Domestic Industry, Frequently Threatens It*, AM. INTELL. PROP. L. ASSOC. (2022), https://www.aipla.org/list/innovate-articles/the-international-trade-commission-though-designed-to-protect-domestic-industry-frequently-threatens-it [https://perma.cc/DW57-SRNS] ("A review of the recent ITC docket reveals that the ITC is not being used for its intended purpose. To the contrary, this analysis found that a majority of companies sued at the ITC in recent years have been based in the United States. And trolls, in particular, are significantly more likely to target U.S.-based respondents. The analysis used the docket search tool DocketNavigator to review all Section 337 cases filed in Fiscal Years 2018, 2019, 2020, and 2021 (*i.e.*, between October 1, 2018 and September 30, 2021). This analysis considered an ITC complainant to be a "patent troll" if its complaint identified no actual use of the patent—for example, to manufacture goods—and instead relied solely on its licensing of the patent to another entity. But, consistent with other analyses of NPE litigation, the author excluded from the definition of a patent troll entities like universities, individual inventors, and startup companies, which do not manufacture goods but are in the business of securing patents for their own innovations (rather than acquiring the patents of others). To evaluate whether a particular ITC respondent was based in the United States, the analysis used the address listed in the ITC complaint. In cases filed by patent trolls during the analyzed period, 63.7% of the targeted respondent companies were headquartered in the United States. . . . This analysis also revealed that only a tiny fraction of Section 337 cases target purely foreign conduct. . . . The data speak clearly no matter how they are categorized. Section 337 is predominantly used—especially by trolls—to target U.S. companies. Despite the fact that the Commission was created to protect domestic industry, U.S. businesses are constantly and needlessly in its crosshairs."); Wayne Winegarden, *The ITC Is Subsidizing Patent Trolls*, FORBES (Feb. 19, 2022), https://www.forbes.com/sites/waynewinegarden/2022/02/19/the-itc-is-subsidizing-patent-trolls/?sh=794f94482f82 [https://perma.cc/C4RU-N9NW] ("According to the ITC's own data, NPEs filed nearly one-fifth of all ITC investigations between 2007 and 2021."); Bill Watson, *ITC's Data on NPE Litigation Undercounts Persistent Misuse of Trade Law*, R ST. INST. (May 24, 2019), https://www.rstreet.org/commentary/2019-5-24-itcs-data-on-npe-litigation-undercounts-persistent-misuse-of-trade-law/ [https://perma.cc/V8X6-GH33] ("Interestingly, the ITC report establishes two categories of NPEs [non-practicing entities] based on the patent holder's business model. 'Category 1' is for 'inventors. . . ; research institutions. . . ; start-ups. . . ; and manufacturers whose own products do not practice the asserted patents.' While Category 2 is reserved for entities 'whose business model primarily focuses on purchasing and asserting patents.' In the last ten years, the NPEs in the ITC report have been split evenly among the two categories, with 40 Category 1 NPE investigations and 40 Category 2 NPE investigations. But even looking at the total number of NPE investigations counted in the ITC data fails to capture the full extent of the problem. Of the 128 Section 337 complaints filed since the beginning of 2017, I have counted 31 in which a complainant included licensing activities or investments by a third-party

And the disproportionate presence of American *respondents* in ITC investigations turns the original mission of the ITC on its head.[173]

The House committee report on the 1988 amendments stated:

> This [domestic industry] requirement was maintained in order to *preclude holders of U.S. intellectual property rights who have no contact with the United States other than owning such intellectual property rights from utilizing Section 337*. The purpose of the Commission is to adjudicate trade disputes *between U.S. industries and those who seek to import goods from abroad*. Retention of the requirement that the statute be utilized on behalf of an industry in the United States retains that essential nexus.[174]

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licensee in its domestic industry argument. That's 24% of recent complaints . . . ."); DUAN, *supra* note 60, at 11 ("It is particularly appropriate to infer the presence of a non-practicing entity in investigations involving third-party subpoenas, because in those cases the patent-holding complainant has so little connection to a domestic industry that it must use the force of law to compel others unwillingly to prove the existence of one. For the 227 investigations starting in 2017, this study identified 54 investigations involving a non-practicing entity by the definition above, including 47 involving an allegation of a domestic industry by third-party subpoena. Notably, this number is substantially higher than the ITC's own count of 34 non-practicing entity investigations between 2017 and 2020. While this difference can be explained by differing definitions in what a non-practicing entity is, the fact remains that almost a quarter of the ITC's docket involved investigations brought by parties that could not show a domestic industry of practicing their own patents."); Josh Landau, *An End of Year Look at the ITC*, COMPUT. & COMM. IND. ASSOC.: PATENT PROGRESS (Dec. 15, 2022), https://www.patentprogress.org/2022/12/an-end-of-year-look-at-the-itc/ [https://perma.cc/54U7-LD23] ("According to the ITC's own data, patent trolls are responsible for a massive share of ITC Section 337 investigations—21% in 2020 and 19% in 2021."); Josh Landau, *Reintroduction of Advancing America's Interests Act Is a Welcome Development for Innovators*, COMPUT. & COMM. IND. ASSOC.: PATENT PROGRESS (May 25, 2023), https://www.patentprogress.org/2023/05/reintroduction-of-advancing-americas-interests-act-is-a-welcome-development-for-innovators [https://perma.cc/956S-MTHJ] ("[A]ccording to the ITC's own statistics, last year nearly 1 in 3 Section 337 investigations were brought by non-practicing entities, the majority of which are companies who acquire patents from others and whose only product is patent litigation.").

[173] *See* SCHAUMBERG (3rd ed. 2016), *supra* note 1, at 8 ("Although Section 337 was originally designed to protect U.S. industries against products from abroad, a foreign-based entity can establish a domestic industry as long as it is engaged, in the United States, in the requisite amount of activity related to the U.S. IP it seeks to enforce.").

[174] H.R. Rep. No. 100-40, pt. 1, at 156–57 (1987) (emphasis added).

As Sapna Kumar writes:

> [A] reason for expanding § 337 was a desire to protect domestic industry from foreign competition. The Reagan administration supported stronger IP rights to "protect U.S. commercial interests." Others argued that IP infringement threatened "international competitiveness and foreign trade performance."[175]

But today, most technology products are manufactured at least in part overseas,[176] with American manufacturers often producing products in the U.S., shipping them abroad to incorporate other components, and then shipping them back for sale in America. That process gets American companies' products covered under Section 337.[177]

And now that the ITC has rendered the domestic industry requirement toothless, just about any patentee can bring an ITC complaint, and nearly every accused infringer is a potential ITC respondent. This has led to results that would likely dismay the sponsors of the 1988 amendments. As Charles Dunn writes:

> Since the ITC is intended as a forum to protect U.S. industries from foreign importers unreachable through district court litigation, it ought to be dominated by investigations involving domestic complainants and foreign respondents. *That is rarely the case*. Among the 635 investigations in the full ITC dataset, 41 ([only] 6.5

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[175] Sapna Kumar, *The Other Patent Agency: Congressional Regulation of the ITC*, 61 FLA. L. REV. 529, 547 (2009) (citing *Comprehensive Trade Legislation: Hearing on H.R. 3 Before the Subcomm. on Trade of the H. Comm. on Ways & Means*, 100th Cong. 105, 295 (1987) (statement of James A. Baker III, Secretary of the Treasury and letter from Edward Donley, Chairman of the Board, U.S. Chamber of Commerce)).

[176] *See* Certain Personal Data and Mobile Communications Devices and Related Software, Inv. No. 337-TA-710, USITC Pub. 4331, at 77 (July 15, 2011) (Final) (comm'n opinion) ("[T]o HTC's knowledge no smartphones . . . are produced in the United States; rather they are all manufactured overseas and imported in the United States."); *see also* SCHAUMBERG (3rd ed. 2016), *supra* note 1, at 43 ("[A]n increasing number of named respondents are United States-based companies, reflecting increased offshore production by American companies.").

[177] *See* SCHAUMBERG & HNATH (5th ed. 2024), *supra* note 61, at 62 n.7 ("For example, reimportation of a product originally manufactured in the United States and shipped abroad—perhaps for further manufacturing steps or incorporation into downstream products—qualifies as importation under Section 337.") (citing Certain Chemical Mechanical Planarization Slurries & Components Thereof, Inv. No. 337-TA-1204, Pub. 759875, at 10 (Jan. 6, 2022) (Final) (commission opinion) ("The ID concluded that 'DuPont's re-importation of accused [Optiplane 2300] product from Taiwan constitutes an act of importation under section 337.'").

> percent) involved solely domestic complainants and foreign respondents . . . [M]ost ITC investigations involve at least one domestic respondent that could have been sued for infringement in a U.S. court.[178]

Surveying ITC investigations from 2018 through 2022, Tom Schaumberg and Gary Hnath found that:

> A complainant does not have to be based in the United States to satisfy the domestic industry requirement. As long as the complainant can show that it has a valid U.S. intellectual property right and that it has a sufficient level of business activity in the United States [including mere licensing], it can proceed with its case. A growing number of foreign-based complainants are filing Section 337 investigations and satisfying the domestic industry requirement. In fact, from 2018 through 2022, approximately 30 percent of investigations included at least one foreign-based entity as a complainant.[179]

As a court of customs and patent appeals wrote in 1981, Section 337 was "intended to provide an adequate remedy for domestic industries against unfair methods of competition and unfair acts instigated by *foreign concerns* operating beyond the *in personam* jurisdiction of domestic courts."[180] But as Colleen Chien writes:

> [Modern] findings undermine to some degree the argument for the necessity of the ITC: that without it, parties would not have their cases heard. More often than not, ITC complainants are also initiating suit in district courts, although the cases may involve different sets of defendants. Furthermore, in most cases the same plaintiff initiated both the ITC and the district court suits (usually with the district court suit filed prior to the ITC suit), and litigated both simultaneously . . . As such, the ITC has often been used not as a last resort or because it is the only option, but as part of a broader enforcement strategy.[181]

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[178] DUAN, *supra* note 60, at 8 (emphasis added).
[179] *See* SCHAUMBERG & HNATH (5th ed. 2024), *supra* note 61, at 55 n.54.
[180] *See also* Sealed Air Corp. v. Int'l Trade Comm'n, 645 F.2d 976, 985 (C.C.P.A. 1981) (emphasis added).
[181] *See* Chien, *supra* note 110, at 93. *See also* DUAN, *supra* note 60, at 10 ("The data bears out the concern that the ITC is essentially acting as a substitute for federal district court patent litigation. Contrary to the intended purpose of the ITC as a

Chien summarizes her other findings as follows:

> Based on an analysis of every patent investigation initiated at the ITC from 1995 to mid-2007 . . . ITC cases involve domestic defendants as often as they do foreign defendants, and 72 percent of the time in combination. Thus, U.S. companies are just as likely to be named in ITC actions as defendants as are foreigners . . . This indicates that the ITC is evolving away from its protectionist roots . . . [T]he data also portray a venue that has outgrown its original purpose: the ITC is no longer reserved for the specific threat of foreign piracy . . . Considering party pairings, only 12 percent of cases fit the allegedly classic profile of a domestic complainant versus a foreign respondent. Fifty-five percent of the time, domestic complainants were pitted against a combination of foreign and domestic respondents. Indeed, domestic companies were respondents, either by themselves or together with foreign companies, in 87 percent of the cases in the sample . . . The data are surprising in light of the history, intent, and requirements of the statute. The majority of cases involved domestic defendants, and 15 percent of the time, no foreign parties were named at all. These cases involved activities of domestic companies that conduct a portion of their manufacturing abroad, and then "import" their products back into the United States. In one such case, the defendants were five U.S. computer chip makers who manufactured their chips domestically but encapsulated them abroad using an allegedly infringing process. This production pattern has become increasingly common as U.S. companies outsource steps

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mechanism for American firms to obtain relief against foreign importers outside the jurisdiction of federal courts, the vast majority of investigations involved either foreign complainants or domestic respondents."); *Id.* at 3 (quoting BILL WATSON, "PRESERVING THE ROLE OF THE COURTS THROUGH ITC PATENT REFORM," R STREET SHORT NO. 57 (MAR. 2018), https://www.rstreet.org/wp-content/uploads/2018/04/Final-Short-57-1.pdf ("[T]he vast majority of patent infringement investigations in the ITC could have been resolved in courts".).

> in the manufacture and assembly of their products to foreign countries, particularly in Asia.[182]

Even patent trolls from foreign countries are now filing complaints against American companies at the ITC.[183]

> As Colleen Chien and Mark Lemley summarize:
>
> > Though section 337 was created to keep foreign pirates out of American markets, recent PAE [patent troll] cases have targeted domestic companies almost twice as often as foreign ones (209 times versus 123 times, respectively). . . . In addition, reversing the traditional roles, foreign patent holders have sought to enjoin domestic companies from importation. In 2011, Beacon Navigation GmbH, a Swiss patent-holding company with few U.S. employees and no products, research, or development related to the accused product (it had purchased patents from another party) sued all major carmakers for their use of GPS navigation systems. That same year, MOSAID Technologies Inc., a Canadian PAE with a shell U.S. operation, brought an ITC action against American technology companies accusing infringement of patents it bought from a bankrupt Israeli startup. . . . [Patent trolls] are flocking to the ITC, both because of the relaxed domestic industry requirement and because courts are no longer a sure bet for injunctions.[184]

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[182] Chien, *supra* note 110, at 63, 70–71, 88–89.

[183] *See* Joe Mullin, *It's Time to Kick Patent Trolls Out of the International Trade Commission*, ELEC. FREEDOM FOUND. (Oct. 29, 2020), https://www.eff.org/deeplinks/2020/10/its-time-kick-patent-trolls-out-international-trade-commission# [https://perma.cc/74EV-PMPR] ("Even patent assertion entities based in other countries are using the ITC. For example, last year, the ITC took up a case in which an Ireland-based patent troll sought to stop 80% of U.S. imports on Android tablets, 86% of Windows tablets, and more than 50% of Android smartphones."); *see also* DUAN, *supra* note 60, at 9 ("Among the 47 investigations for which we were unable to identify a parallel district court case, only 15 investigations (31.9 percent) involved purely foreign respondents that would potentially have been out of reach of federal courts, and 8 investigations (17.0 percent) involved no purely foreign respondents at all, suggesting that jurisdictional reach was not a deciding factor in whether parties opted for the ITC over district courts.").

[184] Chien & Lemley, *supra* note 155, at 26–27.

1. How the ITC Perpetuates Unjust Monopolies

Since its inception, the USPTO patent examination system has faced staffing and resource challenges[185] that have inevitably resulted in the initial granting of some significant number of patents that do not meet statutory requirements.

The USPTO is perennially short of funds and staff, which has allowed invalid patents to be granted. Researchers have found that "between 1983 to 2003, the number of patent applications received by the USPTO more than tripled . . . [while] the number of examiners ha[d] decreased by 20% over the last four years."[186] At certain points in time, 3,000 patent examiners would handle "over 350,000 patent applications annually."[187] That led to the granting of "thousands of ambiguous patents"[188] still in effect today.

This is a result in part of the lenient rules applied to patent applications. As the FTC has explained:

> [P]resumptions in PTO rules tend to favor the issuance of a patent. For example, "[i]f the examiner does not produce a prima facie case [of obviousness], the applicant is under no obligation to submit evidence of nonobviousness." Similarly, "[o]ffice personnel . . . must treat as true a statement of fact made by an applicant in relation to [the asserted usefulness of the invention], unless countervailing evidence can be provided that shows that one of ordinary skill in the art would have a legitimate basis to doubt the credibility of such a statement." Likewise, "[t]here is a strong presumption that an adequate written description of the claimed invention is present when the application is filed." The PTO's resources also appear inadequate to

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[185] *See* FED. TRADE COMM'N, TO PROMOTE INNOVATION, *supra* note 44, at 8 ("[T]he PTO is underfunded, and PTO patent examiners all too often do not have sufficient time to evaluate patent applications fully. These circumstances suggest that an overly strong presumption of a patent's validity is inappropriate.").

[186] Ashley Chuang, *Fixing the Failures of Software Patent Protection: Deterring Patent Trolling by Applying Industry-Specific Patentability Standards*, 16 S. CAL. INTERDISC. L.J 215, 227 (2006) (citations omitted).

[187] Jeremiah Chan and Mathew Fawcett, *Footsteps of the Patent Troll*, 10 INTELL. PROP. L. BULL. 1, 3 (2005).

[188] Chuang, *supra* note 186.

> allow efficient and accurate screening of questionable patent applications.").[189]

The FTC has summarized additional disadvantages faced by patent examiners this way:

> The PTO works under a number of disadvantages that can impede its ability to reduce the issuance of questionable patents. Perhaps most important, the courts have interpreted the patent statute to require the PTO to grant a patent application unless the PTO can establish that the claimed invention does not meet one or more of the patentability criteria. Once an application is filed, the claimed invention is effectively presumed to warrant a patent unless the PTO can prove otherwise. The PTO's procedures to evaluate patent applications seem inadequate to handle this burden. The patent prosecution process involves only the applicant and the PTO. A patent examiner conducts searches of the relevant prior art, a focal point of the examination process, with only the applicant's submissions for assistance. The patent applicant has a duty of candor to the PTO, but that duty does not require an applicant to search for prior art beyond that about which the applicant already knows. The PTO's Manual of Patent Examining Procedure (MPEP) states that the agency "does not investigate" duty of disclosure issues and "does not . . . reject" applications on that basis. If the patent applicant makes assertions or files documentary evidence regarding certain facts, the PTO does not have facilities with which to test the accuracy or reliability of such information.[190]

The latest edition of the U.S. Patent and Trademark Office Manual of Patent Examining Procedure explains that if patent examiners had to research the accuracy of many patent claims, it "would significantly add to the expense and time involved in obtaining a patent

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[189] FED. TRADE COMM'N, TO PROMOTE INNOVATION, *supra* note 44, at 9 (quoting MPEP § 2142, the PTO's Manual of Patent Examining Procedure; United States Patent and Trademark Office, Utility Examination Guidelines, 66 Fed. Reg. 1092, 1098– 99 (2001); United States Patent and Trademark Office, Guidelines for Examination of Patent Applications under the 35 U.S.C. 112 ¶ 1, "Written Description" Requirement, 66 Fed. Reg. 1099, 1105 (2001)).

[190] *See id.*; *see also In re* Warner, 379 F.2d 1011, 1016 (C.C.P.A. 1967) (stating the PTO must issue a patent unless it can establish a prima facie case for rejection of the patent application).

with little or no benefit to the patent owner or any other parties with an interest."[191]

It is no surprise, then, that in recent years, the USPTO has granted over 60 percent of all patent applications,[192] with the time spent by patent examiners in evaluating high-tech patents being generally around just 30 hours.[193]

Yet researchers have shown that there are fewer significant "breakthrough" patents today, even as the number of patents per capita has gone up since the 1980s.[194]

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[191] *See* MPEP § 2001.01 (9th ed. Rev. July 2022).

[192] *See U.S. Pat. Stat. Chart Calendar Years 1963–2020*, U.S. PAT. AND TRADEMARK OFF., https://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm [https://perma.cc/W2XQ-JT6R].

[193] *See Examination Time and the Production System*, U.S. PAT. AND TRADEMARK OFF. 16, https://www.uspto.gov/sites/default/files/Examination%20Time%20and%20the%20Production%20System.pdf [https://perma.cc/A4LT-JPJW]; FED. TRADE COMM'N, TO PROMOTE INNOVATION, *supra* note 44, at 10 ("Hearings participants estimated that patent examiners have from 8 to 25 hours to read and understand each application, search for prior art, evaluate patentability, communicate with the applicant, work out necessary revisions, and reach and write up conclusions. Many found these time constraints troubling. Hearings participants unanimously held the view that the PTO does not receive sufficient funding for its responsibilities.").

[194] *See* Bryan Kelly, Dimitris Papanikolaou, Amit Seru & Matt Taddy, *Measuring Technological Innovation Over the Long Run* (Nat'l Bureau of Econ. Rsch., Working Paper No. 25266, 2018) ("We identify breakthrough innovations as the most significant patents . . . . Breakthrough innovations represent distinct improvements in the technological frontier and which become the new foundation upon which subsequent inventions are built . . . . We then construct indices of breakthrough innovation . . . by counting the number of patents each year whose quality is in the top fifth percentile of our quality measure . . . . Examining the technology areas where these breakthrough innovations occurred, we find that advances in electricity and transportation play a role in the 1880s; agriculture in the 1900s; chemicals and electricity in the 1920s and 1930s; and computers and communication in the post-1960s. Our innovation index is a strong predictor of aggregate total factor productivity during this period: a one-standard deviation increase in our index is associated with a 0.5 to 2 percentage points higher annual productivity growth over the next five to ten years . . . . Computers and electronic products have peaked since the early 1990s . . . . Total patents per capita is essentially flat from 1870–1930, dips from 1930–1980, and displays significant spike post-1980.") (citing Figure 7, Panel C)). *See also* MICHAEL BHASKAR, HUMAN FRONTIERS: THE FUTURE OF BIG IDEAS IN AN AGE OF SMALL THINKING (2021) ("The data suggested a peak year for human innovation, and it wasn't in the late twentieth or early twenty-first centuries. It was . . . 1873 [during the Industrial Revolution] . . . [Since then,] [p]atents have increased in absolute number, but not in quality.").

The proliferation of invalid patents has created the modern industry of patent trolls and their third party funders.[195] Patent trolls are focused "not on developing or commercializing patented inventions but on buying and asserting patents, often against firms that have already begun using the claimed technology after developing it independently, unaware of the [troll's] patent."[196] The ITC itself defines these sorts of patent trolls as "Category 2 NPEs," as follows:

> No commonly understood definition of an NPE [non-practicing entity, or patent troll] exists. For analytical purposes, the Commission used the following categories: . . . Category 2 NPEs [are] [e]ntities that do not manufacture products that practice the asserted patents and whose business model primarily focuses on purchasing and asserting patents.[197]

Part of many patent trolls' business models is the use of file-and-settle tactics, which involve sending demand letters to large numbers of defendants asking for lump-sum licensing fees below what would be

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[195] *See generally* Paul Taylor, *Disclosing High Roller Bankrolling in the Patent Litigation Casino: The Need to Regulate Third Party Litigation Financing,* 103 J. PAT. & TRADEMARK OFF. SOC'Y 21 (2023).

[196] BRIAN T. YEH, CONG. RSCH. SERV., R42668, AN OVERVIEW OF THE "PATENT TROLLS" DEBATE (2013). As Matt Ridley writes, "The truth is, almost all discoveries and inventions occur to different people simultaneously, and result in furious disputes between rivals who accuse each other of intellectual theft. In the early days of electricity, Park Benjamin, author of The Age of Electricity, observed that 'not an electrical invention of any importance has been made but that the honour of its origin has been claimed by more than one person'. This phenomenon is so common that it must be telling us something about the inevitability of invention. As Kevin Kelly documents in his book What Technology Wants, we know of six different inventors of the thermometer, three of the hypodermic needle, four of vaccination, four of decimal fractions, five of the electric telegraph, four of photography, three of logarithms, five of the steamboat, six of the electric railroad." MATT RIDLEY, THE EVOLUTION OF EVERYTHING: HOW NEW IDEAS EMERGE (2015).

[197] U.S. Int'l Trade Comm'n, *Facts and Trends Regarding USITC Section 337 Investigations* (Apr. 15, 2013), https://www.usitc.gov/press_room/documents/featured_news/sec337factsupdate.pdf (Adding that "Category 1 NPEs [are] [a]ll other entities that do not manufacture products that practice the asserted patents, including inventors who may have done R&D or built prototypes but do not make a product covered by the asserted patents and therefore rely on licensing to meet the domestic industry requirement; research institutions, such as universities and laboratories, that do not make products covered by the patents, and therefore rely on licensing to meet the domestic industry requirement; start-ups that possess IP rights but do not yet manufacture products that practice the patent; and manufacturers whose products do not practice the asserted patents.").

their costs of litigation.[198] Patent troll business models also include using shell companies to pass their licensing revenue to others, while maintaining no assets or working capital, and using the bankruptcy process to avoid paying legal sanctions.[199] Patent trolls often buy patents from companies that could not sell their products in the first place, and consequently went bankrupt.[200]

As I have explored previously, so advantageous are the rules governing lawsuits for patent infringement, however meritless, that patent troll litigants are now backed by third party funders whose sole interest in the litigation is to make a profit off exploiting these rules.[201]

And as the ITC has become yet another, even more patent troll-friendly forum for patent disputes, many third-party funders finance complainants at the ITC as well.[202] As former Attorney General Michael Mukasey has explained, foreign actors are increasingly using this sort of third party funding to put American businesses at a disadvantage, writing, "[b]y targeting U.S. innovators and companies in critical industries, foreign-funded [patent trolls] drain time and resources that

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[198] *See* Scott Burt, *It's Time to Stand Up to Patent Trolls!*, WIPO MAG. (Feb. 13, 2015), https://www.wipo.int/wipo_magazine/en/2015/01/article_0002.html [https://perma.cc/NY3Z-4PCQ].

[199] *See* Christine Armellino & Robert Frederickson, *Examining Octane Fitness Five Years On*, IP WATCHDOG (Apr. 29, 2019, 4:15 PM), https://ipwatchdog.com/2019/04/29/examining-octane-fitness-five-years/id=108693/ [https://perma.cc/5UDY-43RF]. *See also* Iris Connex, LLC v. Dell, Inc., 235 F. Supp. 3d 826 (E.D. Tex. 2017) (describing how a patent troll created a shell company to avoid personal liability for fees and sanctions); Adam Shartzer & Josh Carrigan, *Patent Fee-Shifting Often Leaves Prevailing Parties Unpaid*, LAW360 (Dec. 8, 2022, 4:07 PM), https://www.law360.com/articles/1556062/patent-fee-shifting-often-leaves-prevailing-parties-unpaid [https://perma.cc/384P-6UE3] (finding that patent trolls "account for almost 90% of the cases where fees were assessed, but never paid.").

[200] FED. TRADE COMM'N, TO PROMOTE INNOVATION, *supra* note 44, at 39 ("Panelists identified [a type] of [patent troll] in the computer hardware industry: . . . "professional" patent assertion companies that buy patents from other companies, particularly those that are bankrupt, and then assert them against practicing entities . . . .").

[201] *See generally* Taylor, *supra* note 195. The available data suggest third-party funders finance thousands of patent infringement suits filed by patent trolls. *See At Least 25% of the Last 3 Years NPE Litigation Caused by Litigation Investment Entities*, UNIFIED PATENTS (Feb. 21, 2023), https://www.unifiedpatents.com/insights/2023/2/21/litigation-investment-entities-the-investors-behind-the-curtain [https://perma.cc/D2Q4-UAA5].

[202] *See* Matt Rizzolo & Hyun-Joong, *Opportunities Abound in Patent Litigation Funding at the ITC*, LAW360 (Nov. 6, 2019, 2:27 PM), https://www.law360.com/articles/1217276, [https://perma.cc/8ANR-Z3AY].

could instead be dedicated to producing the cutting-edge technologies that will keep America safe and prosperous."[203]

As I've also explored previously, the patent troll business model is directly at odds with the original purposes of American patent law:

> [T]he original understanding of properly granted patents, from Renaissance Italy to the Patent Act of 1836, generally required tangible proof of the thing to be patented's immediate commercializability and its benefits to society at large, along with ready access to courts or other means to challenge improperly-granted patents (under ordinary standards of proof), as such improperly-granted patents were understood to constitute unjust monopolies that deterred, rather than facilitated, desired innovation.[204]

Even in the Patent Act of 1836, which created the modern patent examination system, Congress recognized the inherent fallibility of patent examiners and the need for robust procedures to allow improperly granted patents to have their validity subsequently reevaluated in order to avoid the perpetuation of unjust monopolies over innovation.[205] The 1836 Senate Report accompanying the legislation recognized that, while the proposed bill would create a new examination system, any such system would be fallible and inevitably grant improper patents:

> To prevent these evils in future is the first and most desirable object of a revision and alteration of the existing laws on this subject. The most obvious, if not the only means of effecting it, appears to be to establish a check upon the granting of patents, allowing them to issue only for such inventions as are in fact new and entitled, by the merit of originality and utility, to be protected by law. The difficulty encountered in effecting this, is in determining what that check shall be; in whom the power to judge of inventions before granting a patent can safely be reposed, *and how its exercise can be*

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[203] *See* Michael Mukasey, *Patent Litigation is a Matter of National Security*, WALL ST. J. (Sept. 11, 2022), https://www.wsj.com/articles/patent-litigation-is-a-matter-of-national-security-chips-and-science-act-intellectual-property-theft-lawsuit-technology-scammers-manufacturing-11662912581, [https://perma.cc/UF4X-LEVJ].
[204] Paul Taylor, *Anti-Monopoly and Pro-Commerce: The Original Frontier Spirit of American Patent Law and Its Implications for Today*, 74 SYRACUSE L. REV. 59, 61–62 (2024).
[205] *See generally id.* at 154–160.

> *regulated and guarded, to prevent injustice through mistake of judgment or otherwise, by which honest and meritorious inventors might suffer wrong.* [206]

The 1836 Senate Report then noted that even diligent patent examiners would work under circumstances that would inevitably lead to the granting of invalid patents, warranting a robust system of subsequent patent review:

> It is obvious that the power must, in the first instance, be exercised by the department charged with this branch of the public service. But as it may not be thought proper to intrust its final exercise to the department, it is deemed advisable to provide for an occasional tribunal to which an appeal may be taken. And as a further security against any possible injustice, it is thought proper to give the applicant in certain cases, where there may be an adverse party to contest his right, an opportunity to have the decision revised in a court of law. [207]

And indeed, as explained earlier, these inherent shortcomings in the patent examination system, which warrant subsequent patent validity reviews, remain and have been exploited by an entire new industry of patent trolls.[208]

2. The Anti-Competitive Effects of Unjust Monopolies

An invalid patent is an unjust monopoly[209] that produces anti-competitive effects. As the Supreme Court of the United States wrote in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, "[t]he Patent Clause itself reflects a balance between the need to encourage innovation and the *avoidance of monopolies* which stifle competition without any concomitant advance in the 'Progress of Science and useful Arts.'"[210]

The *Antitrust Guidelines for the Licensing of Intellectual Property* issued by the U.S. Department of Justice and the FTC—which "state the antitrust enforcement policy of the U.S. Department of Justice and the Federal Trade Commission . . . with respect to the licensing of intellectual property protected by patent, copyright, and trade secret

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[206] *1836 S. Rpt.*, 18 J. PAT. OFF. SOC'Y 853, 858 (1936) (emphasis added).
[207] *Id.*
[208] *Supra* notes 185–190.
[209] *See* Taylor, *supra* note 195, at 69–93 (Leading authors of the Constitution and other prominent American Founders roundly opposed unjust monopolies and their manifestation in improperly-granted patents).
[210] Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 146 (1989) (quoting U.S. CONST. art. I, § 8, cl. 8) (emphasis added).

law, and of know-how[]"[211]—note that "[a]s in other antitrust contexts. . . an intellectual property owner could illegally acquire or maintain market power. Furthermore, *even if it lawfully acquired or maintained that power, the owner could still engage in anticompetitive conduct in connection with such property*."[212] Patent trolls, of course, engage in a sort of anticompetitive conduct in connection with the invalid patents they press in legal proceedings. Further, the Guidelines go on to mention the positive side of licensing activities by patent owners, stating:

> Licensing, cross-licensing, or otherwise transferring intellectual . . . can facilitate integration of the licensed property with *complementary factors of production*. This integration can lead to more efficient exploitation of the intellectual property, benefiting consumers through the reduction of costs and the introduction of *new products*. Such arrangements increase the value of intellectual property to consumers and owners.[213]

But these positive effects of licensing *do not apply* to patent trolls, who produce no products.

As the FTC has explained, the perpetuation of invalid patents is about as anti-competitive as a policy can get:

> Chief among the attributes of a well-functioning patent system in this regard are appropriately granted, valid rights with well-defined boundaries that provide clear notice of what technology is protected and what is not. . . . [P]atents of questionable validity can distort competition and inhibit innovation by discouraging firms from conducting R&D in areas that the patent improperly covers and raising costs through litigation or unnecessary licensing.[214]

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[211] U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY, at 1 (Jan. 12, 2017), https://www.ftc.gov/system/files/documents/public_statements/1049793/ip_guidelines_2017.pdf.

[212] *Id.* at 4 (emphasis added).

[213] *Id.* at 5 (emphasis added).

[214] FED. TRADE COMM'N, THE EVOLVING IP MARKETPLACE: ALIGNING PATENT NOTICE AND REMEDIES WITH COMPETITION, at 46 (Mar. 2011), https://www.ftc.gov/sites/default/files/documents/reports/evolving-ip-marketplace-aligning-patent-notice-and-remedies-competition-report-federal-trade/110307patentreport.pdf.

And as the FTC stated in a prior report:

> From a patent perspective, an unwarranted patent is one that does not meet the statutory standards for patentability. From an economic perspective, however, *unwarranted market power can arise from unwarranted patents*—that is, patents for inventions that would have emerged in roughly the same time frame, and for which disclosure and commercial development would have occurred, even without the prospect of a patent.[215]

The Federal Circuit has also opined on the connection between the abuse of patents and the violation of antitrust law principles, stating:

> There may on occasion exist . . . a fine line between actions protecting the legitimate interests of a patent owner and antitrust law violations. On the one hand, the patent owner must be allowed to protect the property right given to him under the patent laws. On the other hand, a patent owner may not take the property right granted by a patent and use it to extend his power in the marketplace improperly, i.e. beyond the limits of what Congress intended to give in the patent laws. The fact that a patent is obtained does not wholly insulate the patent owner from the antitrust laws. When a patent owner uses his patent rights not only as a shield to protect his invention, but as a *sword to eviscerate competition unfairly*, that owner may be found to have abused the grant and may become liable for antitrust violations when sufficient power in the relevant market is present. Therefore, patent owners may incur antitrust liability for enforcement of a patent known to be obtained through fraud or known to be invalid, where license of a patent compels the purchase of unpatented goods, or where there is an overall scheme to use the patent to violate antitrust laws.[216]

Similarly, the *Antitrust Guidelines for the Licensing of Intellectual Property* notes that "[a]s with other forms of private property, certain types of conduct with respect to intellectual property

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[215] FED. TRADE COMM'N, TO PROMOTE INNOVATION, *supra* note 44, at 37 (emphasis added).

[216] Atari Games Corp. v. Nintendo of Am., Inc., 897 F.2d 1572, 1576–77 (Fed. Cir. 1990) (emphasis added) (citations omitted).

may have anticompetitive effects against which the antitrust laws can and do protect."[217]

The ITC should recognize that its own practices result in unfair trade. As Eric Fues and Brandon Andersen have written:

> In Nobel Biocare Services AG v. Instradent USA, Inc., the appellate court affirmed a PTAB invalidity ruling from May 10, 2017 for claims 1–5 of U.S. Patent No. 8,714,977. The ITC's exclusion orders, involving these claims and those of another patent in the investigation of Certain Dental Implants, had already issued, meaning the ITC's delay extended injunctive relief for over 16 months for an invalid patent. Similarly, in Cisco Sys., Inc. v. Arista Networks, Inc., the Federal Circuit summarily affirmed the PTAB invalidity ruling regarding one of the two patents forming the basis for the ITC exclusion orders in the Network Devices investigation. The ITC's delay in rescinding that exclusion order resulted in 10 months of injunctive relief for an invalid patent . . . The ITC disserves the public interest by requiring Federal Circuit affirmance of PTAB invalidity decisions before rescinding, or otherwise modifying, its remedial orders. The ITC should acknowledge that PTAB invalidity rulings constitute "changed conditions of fact or law" affecting the public interest (see 19 C.F.R. §210.76(a)(1)), that should be carefully considered without waiting 10 to 16 months for a Federal Circuit ruling.[218]

Currently, the ITC will even insist on imposing penalties for violating consent orders *when the patent at issue was found invalid by the PTAB and in federal court*.[219]

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[217] U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, *supra* note 201, at 3.

[218] Eric J. Fues & Brandon T. Andersen, *The Interplay Between the ITC and the PTAB—More Progress Needed*, BL (Jan. 22, 2019), https://www.finnegan.com/en/insights/articles/the-interplay-between-the-itc-and-the-ptabmore-progress-needed.html#:~:text=The%20ITC%20favors%20speed%20and,1337(b)(1) [https://perma.cc/DEZ6-PHQD] (citations omitted).

[219] *See generally* SCHAUMBERG & HNATH (5th ed. 2024), *supra* note 61, at 4 n.13 (5th ed. 2024) ("For example, the Federal Circuit upheld a $6 million penalty for violation of a consent order despite a subsequent finding of patent invalidity, noting that it "agree[d] with the ITC that deterring violation of its orders by imposing civil penalties for violative conduct is in the public interest." *See* DBN Holding, Inc. v. Int'l Trade Comm'n, 26 F.4th 1363, 1372 (Fed. Cir. 2022).").

The ITC's role in the perpetuation of unjust monopolies cuts directly against its founding mission of fair competition in international trade. It could protect itself from such tendencies by deferring to the PTAB. As I've written previously:

> Congressional recognition of the unjust nature of improperly-granted patent monopolies most recently appeared in its enactment of the America Invents Act ("AIA"). As the Supreme Court has recognized, Congress enacted the AIA and its procedures for the "inter partes review" of granted patents to "protect the public's 'paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope"' by allowing anyone to file a petition for such review and authorizing any "party dissatisfied with [a] final written decision" of the Patent and Trademark Office to appeal the decision to the Federal Circuit. The committee report on the AIA follows the Founders' original anti-monopoly understanding of the purpose of the earliest patent laws, and the Patent Act of 1836 that restored that original understanding, stating that Congress enacted the AIA in 2011 in response to a "growing sense that questionable patents are too easily obtained and are too difficult to challenge."[220]

V. HOW THE PTAB OPERATES

As explained in the syllabus of the Supreme Court's decision in *Oil States Energy Services, LLC v. Greene's Energy Group*:

> Inter partes review authorizes the United States Patent and Trademark Office (PTO) to reconsider and cancel an already-issued patent claim in limited circumstances. See 35 U.S.C. §§ 311–319. Any person who is not the owner of the patent may petition for review. § 311(a). If review is instituted, the process entitles the petitioner and the patent owner to conduct certain discovery; § 316(a)(5); to file affidavits, declarations, and written memoranda, § 316(a)(8); and to receive an oral hearing before the Patent Trial and Appeal Board, §

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[220] Paul Taylor, *Follow the Founders and Insist on Review of Unjust Monopolies Created by Invalid Patents*, PAT. PROGRESS (Aug. 31, 2023), https://patentprogress.org/2023/08/follow-the-founders-and-insist-on-review-of-unjust-monopolies-created-by-invalid-patents/ [https://perma.cc/87XE-2D7M].

> 316(a)(10). A final decision by the Board is subject to Federal Circuit review. §§ 318, 319.[221]

And as the Supreme Court further explained in its decision:

> The America Invents Act replaced inter partes reexamination with inter partes review, the procedure at issue here. Any person other than the patent owner can file a petition for inter partes review. The petition can request cancellation of "1 or more claims of a patent" on the grounds that the claim fails the novelty or nonobviousness standards for patentability. § 311(b). The challenges must be made "only on the basis of prior art consisting of patents or printed publications." . . . [T]he Board must issue a final written decision no later than a year after it notices the institution of inter partes review, but that deadline can be extended up to six months for good cause. §§ 316(a)(11), 318(a).[222]

The timeframes and standards of evidence that govern the PTAB process are far superior to those of the ITC. Although the three administrative patent judges handling an inter partes review ("IPR") at the USPTO operate within timeframes longer than those of the ITC, those patent judges will have much more time to focus on the relevant subset of patent invalidity issues than an ALJ at the ITC, who must consider more issues over a shorter period of time. And while the draconian nature of the ITC's sole available remedy (banning all imports) should be commensurate with the thoroughness with which the patent's validity has been reviewed, that cannot be achieved within the confines of the ITC's truncated and accelerated decision process.

And the PTAB, unlike the ITC, appropriately requires a showing of patent invalidity only by preponderance of the evidence,[223] a view

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[221] Oil States Energy Services, LLC v. Greene's Energy Grp., LLC, 584 U.S. 325, 325 (2018).

[222] *Id.* at 331–32 (some citations omitted).

[223] In the Federal Circuit, the threshold for "substantial evidence" review of ITC decisions varies based on the burden of proof applicable to the issue in question. For example, in Finnigan Corp. v. Int'l Trade Comm'n, the Federal Circuit noted that the "burden is on the party asserting invalidity to prove it with facts supported by clear and convincing evidence." F.3d 1354, 1365 (Fed. Cir. 1999). Based on this heightened burden of proof and a review of the record, the Federal Circuit "determined that the invalidity determination was not based upon substantial evidence which [was] clear and convincing." *Id*. However, the preponderance of the evidence standard would apply in an appeal of both ITC and PTAB decisions. *See*

supported by both the founders of American patent law,[224] and the modern FTC.[225]

1. The Supreme Court's *Oil States* Ruling on the Primacy of PTAB Patent Validity Determinations

In 2018, the Supreme Court affirmed the PTAB's primacy in determining patent validity within the executive branch. In *Oil States Energy Services, LLC v. Greene's Energy Group*,[226] the Court analyzed the PTAB under its "public rights" doctrine, the precedents under which "have given Congress significant latitude to assign adjudication of public rights to entities other than Article III courts."[227] The Court stated:

> Our precedents have recognized that the [public rights] doctrine covers matters "which arise between the

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Inter Partes Review and the ITC: The Benefits and Risks of Filing IPR on Patents Asserted in an ITC Investigation, QUINN EMMANUEL (Mar. 1, 2015), https://www.quinnemanuel.com/the-firm/publications/article-march-2015-inter-partes-review-and-the-itc-the-benefits-and-risks-of-filing-ipr-on-patents-asserted-in-an-itc-investigation/#:~:text=An%20ITC%20respondent%20can%20reasonably,ITC%20respondent%20throughout%20the%20investigation [https://perma.cc/5ZMM-HUWF]. ("If the ITC initially found a patent to be valid and infringed, but the PTO later found the same patent to be invalid via an IPR, the Federal Circuit could merge the appeals and consider the PTO's finding under the lesser preponderance standard."). *See* 35 U.S.C. §§ 315(e)(2), 316(e).

[224] *See* Paul Taylor, *Anti-Monopoly & Pro-Commerce: The Original Frontier Spirit of Patent Law and its Implications for Today*, 74 SYRACUSE L. REV. 59, 101–102, 156–57 (2024).

[225] *See* FED. TRADE COMM'N, TO PROMOTE INNOVATION, *supra* note 44, at 8 ("Recommendation 2: Enact Legislation to Specify that Challenges to the Validity of a Patent Are To Be Determined Based on a 'Preponderance of the Evidence.' An issued patent is presumed valid. Courts require a firm that challenges a patent to prove its invalidity by 'clear and convincing evidence.' This standard appears unjustified. A plethora of presumptions and procedures tip the scales in favor of the ultimate issuance of a patent, once an application is filed. In addition, as many have noted, the PTO is underfunded, and PTO patent examiners all too often do not have sufficient time to evaluate patent applications fully. These circumstances suggest that an overly strong presumption of a patent's validity is inappropriate. Rather, courts should require only a 'preponderance of the evidence' to rebut the presumption of validity.").

[226] Oil States Energy Services, LLC v. Greene's Energy Grp., LLC, 584 U.S. 325, 334 (2018).

[227] *Id.* ("When determining whether a proceeding involves an exercise of Article III judicial power, this Court's precedents have distinguished between 'public rights' and 'private rights.' Those precedents have given Congress significant latitude to assign adjudication of public rights to entities other than Article III courts.") (citations omitted).

> Government and persons subject to its authority in connection with the performance of the constitutional functions of the executive or legislative departments." . . . Inter partes review involves one such matter: reconsideration of the Government's decision to grant a public franchise.[228]

The Court then concluded:

> Inter partes review falls squarely within the public-rights doctrine. This Court has recognized, and the parties do not dispute, that the decision to *grant* a patent is a matter involving public rights—specifically, the grant of a public franchise. Inter partes review is simply a reconsideration of that grant, and *Congress has permissibly reserved the PTO's authority to conduct that reconsideration*.[229]

And the Court highlighted that such a reservation of USPTO authority to the PTAB occurred specifically within the federal patent statutes, stating "[a]s a public franchise, a patent can confer only the rights that 'the [federal patent] statute prescribes.'"[230] The Court in *Oil States* even left open the possibility that in the future it might hold that the ITC does not have the authority to decide infringement actions without having that authority under the federal patent statutes (as opposed to the federal trade statutes), writing that "[w]e emphasize the narrowness of our holding. We address the constitutionality of inter partes review only. We do not address whether other patent matters, such as infringement actions, can be heard in a non-Article III forum."[231]

The ITC itself has recognized in an order that "[t]he PTO is the agency within the government responsible for the issuance of patents."[232] And a federal district court has similarly noted, "[p]atent invalidity is a statutory defense *rather than a regulatory duty* on the part of the ITC."[233] As the Supreme Court made clear in *Oil States*, and as it

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[228] *Id.* at 334 (quoting Crowell v. Benson*,* 285 U.S. 22, 50 (1932)).
[229] *Id.* at 335 (emphasis added).
[230] *Id.* at 338 (quoting *Gayler v. Wilder,* 51 U.S. (10 How.) 477, 494(1851)).
[231] *Id.* at 344.
[232] *In re* Certain Pers. Comput./Consumer Elec. Convergent Devices, Components Thereof, and Prods. Containing Same, No. 337-TA-558, USITC Pub. 6, at 7 (U.S. Int'l Trade Comm'n) (Feb. 6, 2006).
[233] *In re* Convertible Rowing Exerciser Pat. Litig., 721 F. Supp. 596, 601 (D. Del. 1989) (emphasis added).

has made clear previously,[234] the regulatory duty to determine patent validity resides with the USPTO and the PTAB, not the ITC.

2. The ITC Should Defer to the PTAB to Avoid Perpetuating Unjust Monopolies

In light of the PTAB's primacy in the executive branch regarding questions of patent validity, it is significant that it is the official position of the FTC, the federal agency whose mission is to "[p]rotect . . . consumers and competition by preventing anticompetitive, deceptive, and unfair business practices through law enforcement, advocacy, and education,"[235] that the primary question regarding "competition policy" is whether a patent is valid in the first place. As the FTC has written:

> Competition policy asks two questions in connection with the grant of a patent. The *first question* is whether the patent is warranted. *Patent policy, of course, as set through statutes and decisional law, also seeks to ensure that the Patent and Trademark Office (PTO) does not grant, and the courts do not uphold, invalid patents*.[236]

The Supreme Court itself in *Oil States* highlighted the PTAB's specific role in "seeing that patent *monopolies* are kept within their legitimate scope," writing:

> The [PTAB] Board considers the same statutory requirements that the PTO considered when granting the patent. Those statutory requirements prevent the "issuance of patents whose effects are to remove existent knowledge from the public domain." So, like the PTO's initial review, the Board's inter partes review protects

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[234] *See* John Deere Co. v. Cook Chem. Co., 381 U.S. 1, 6 (1966) ("Within the limits of the constitutional grant, the Congress may, of course, implement the stated purpose of the Framers by selecting the policy which in its judgment best effectuates the constitutional aim. This is but a corollary to the grant to Congress of any Article I power. Within the scope established by the Constitution, Congress may set out conditions and tests for patentability. *It is the duty of the Commissioner of Patents and of the courts in the administration of the patent system to give effect to the constitutional standard by appropriate application, in each case, of the statutory scheme of the Congress*.") (emphasis added) (citations omitted).

[235] *About the FTC*, FED. TRADE COMM'N, https://www.ftc.gov/about-ftc [https://perma.cc/CU3J-J89M] (last visited).

[236] FED. TRADE COMM'N, TO PROMOTE INNOVATION, *supra* note 44, at 9–10 (emphasis added).

> "the public's paramount interest in seeing that patent *monopolies* are kept within their legitimate scope."[237]

In light of this, the ITC should defer to the PTAB for patent validity determinations. The PTAB's standard for institution of a patent validity review is whether there is a "reasonable likelihood that [the] petitioner would prevail."[238] The ITC should defer to the PTAB as soon as the PTAB determines a petitioner has met the "reasonable likelihood to prevail" standard for a relevant patent.

Injustice results when the ITC fails to defer to the PTAB. As authors at Quinn Emmanuel write:

> An ITC respondent can reasonably ask why it would want to file an IPR if the ITC investigation will be over before the IPR is complete. This is a particularly germane question considering the immediate and continuous pressure of an exclusion order facing an ITC respondent throughout the investigation. The respondent (and potentially its customers) often immediately recognize that they must succeed on the merits and/or design around the asserted patent(s) before the ITC reaches its final determination, meaning within about 18 months if not sooner. An IPR will be of little immediate help. Indeed, the threat of an exclusion order will likely dictate action right away. *The attorneys' fees and costs associated with an IPR are not insubstantial, meaning an ITC respondent may prefer to allocate resources differently in defense of the suit.* Indeed, the invalidity success rate for granted IPR petitions exceeds that of invalidity challenges in an ITC investigation . . . . *A Federal Circuit finding of invalidity would be a hollow victory if the accused infringer previously needed to change its product to avoid an exclusion order.*[239]

As an historical side note, a patent for a light bulb issued prior to that granted to Thomas Edison would have doomed Edison's better version of the prior patent if that patent had not been invalidated. As Alex Tabarrok explains in *Launching The Innovation Renaissance: A New Path to Bring Smart Ideas to Market Fast*:

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[237] Oil States Energy Servs., LLC v. Greene's Energy Grp., 584 U.S. 325, 336–37 (2018) (citations omitted); *See* 35 U.S.C. § 311(b).
[238] 35 U.S.C. § 314(a).
[239] *Inter Partes Review and the ITC*, *supra* note 223 (emphasis added).

> Thomas Edison invented and patented numerous products: the light bulb, the phonograph, movie film and much else besides. . . . The invention of products typically requires the expenditure of sunk costs in a way that the creation of ideas does not. Today it is not necessary to implement an idea to patent it, and many patentable ideas are so broadly phrased that they could not be implemented in a model. . . . In inventing the light bulb, for example, Edison laboriously experimented with some 6,000 possible materials for the filament before hitting upon bamboo. . . . William Edward Sawyer and Albon Man patented a light bulb prior to Edison and claimed the rights to any light bulb using a filament of "fibrous or textile material," which certainly covered bamboo. The Supreme Court, however, rejected these claims because Sawyer and Man had not invested the sunk costs necessary to discover that bamboo would in fact work as a filament. The court wrote: They made a broad claim for every fibrous or textile material, when in fact an examination of over six thousand vegetable growths showed that none of them possessed the peculiar qualities that fitted them for that purpose. Was everybody then precluded by this broad claim from making further investigation? We think not. The injustice of so holding is manifest in view of the experiments made, and continued for several months, by Mr. Edison and his assistants, among the different species of vegetable growth, for the purpose of ascertaining the one best adapted to an incandescent conductor. [The court then describes at length Edison's many experiments and how he "dispatched a man to Japan" to find the right kind of bamboo.] . . . Under these circumstances, to hold that one, who had discovered that a certain fibrous or textile material answered the required purpose, should obtain the right to exclude everybody from the whole domain of fibrous and textile materials, and thereby shut out any further efforts to discover a better specimen of that class than the patentee had employed, would be an unwarranted extension of his monopoly, and operate rather to discourage than to promote invention. Broad claims reduce the incentives

> of future inventors to invest the sunk costs that are necessary to create actual working products.[240]

Fortunately, today, the PTAB exists to invalidate an improperly granted patent before its assertion can suppress innovation. But the ITC bypasses the PTAB.

The federal courts have long recognized the primacy of the PTAB regarding patent validity determinations, but the ITC has not. As Eric Fues and Brandon Andersen write:

> Inter partes review ("IPR") proceedings have become a mainstay of district court patent litigation. Parties recognize IPRs as a quick and cost effective alternative to patent litigation. District court judges exercise their discretion to stay their cases around sixty percent of the time in favor of parallel IPR proceedings before the PTO's Patent Trial and Appeal Board ("PTAB"). These stays often remain in place through the pendency of review by the Federal Circuit, eliminating the risk of relief issuing based on invalid patent rights. In stark contrast, administrative law judges ("ALJ") at the U.S. International Trade Commission ("ITC" or "Commission") almost never stay their investigations due to IPR proceedings. And after ALJs have issued Initial Determinations regarding liability matters, the Commission itself has granted injunctive relief, in the form of exclusion orders, over patents considered invalid by the PTAB. These exclusion orders can remain in force for many months while the Federal Circuit considers, and then usually affirms, the PTAB rulings. Compared with the district courts, some of this different treatment results from the expedited nature of ITC investigations.[241]

Further, the ITC's governing statute requires that the enumerated activities required to show the presence of a "domestic industry" be analyzed with respect to "articles protected by the patent."[242] A coerced licensing settlement obtained by a patent troll to

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[240] ALEX TABARROK, LAUNCHING THE INNOVATION RENAISSANCE: A NEW PATH TO BRING SMART IDEAS TO MARKET FAST (2011); *See* The Incandescent Lamp Patent, 159 U.S. 465 (1895).

[241] Fues & Andersen, *supra* note 218; 19 U.S.C. § 1337(b)(1).

[242] 19 U.S.C. § 1337(a)(3). *See also* InterDigital Commc'ns, LLC v. Int'l Trade Comm'n, 707 F.3d 1295, 1297–98 (Fed. Cir. 2013) ("The 'substantial investment in

achieve "domestic industry" status at the ITC does not prove a patent is valid, and so it cannot show that the trolls' alleged "domestic industry" is "protected by the patent."[243] The ITC itself has stated that competition policy favors the protection of "valid" patents, not all *asserted* patents.[244] A patent is not finally valid until it is reviewed in the PTAB, or in a federal court, on a schedule that allows its validity to be fairly tested, especially given the complexity of many of the products at issue. The ITC cannot accommodate that schedule, at the same time that it threatens American companies with import bans.

3. The ITC Is Not the Proper Authority to Determine Patent Validity

Odd as it may seem now that the ITC has become one of the most prominent patent dispute forums, Section 337 does not authorize the ITC to declare a patent invalid. The ITC makes its own decisions on patent validity, but only in the sense that it considers that issue as a defense to a claim of an unfair trade practice. In the legislative history of the 1974 trade legislation, the Senate report stated "[t]he Commission

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[the patent's] exploitation including engineering, research and development, or licensing' must be 'with respect to the article protected by the patent,' which means that the engineering, research and development, or licensing activities must pertain to products that are covered by the patent that is being asserted. Thus, just as the 'plant or equipment' referred to in subparagraph (A) must exist with respect to articles protected by the patent, such as by producing protected goods, the research and development or licensing activities referred to in subparagraph (C) must also exist with respect to articles protected by the patents, such as by licensing protected products.").

[243] As the dissenting Federal Circuit judge in *John Mezzalingua* pointed out, only a reaffirmation of patent validity by an authoritative body charged with interpreting the patent statutes can make a patent owner's demands for *licensing* legitimate, stating "[s]ecuring a judgment of validity and infringement substantially strengthens and increases the value of the patent. . . . In these ways, infringement litigation can be a productive and advantageous use of patent rights which better fortify the patentee's position in the marketplace. Indeed, it appears that absent PPC's infringement actions the '539 patent would never have become sufficiently valuable or marketable for PPC to have obtained the license agreement that it did. The infringing competitors only stopped infringing and licensed PPC's patents at the point of a sword forged and *tempered in the district courts*." *See* John Mezzalingua Assocs., Inc. v. Int'l. Trade Comm'n, 660 F.3d 1322, 1340 (Fed. Cir. 2011) (Reyna, J., dissenting) (emphasis added). By that logic, all of the licensing gyrations engaged in by the ITC over the years to justify patent trolls' "domestic industry" could only be legitimately based on authoritative determinations of patent validity by authorities independent of the ITC.

[244] In Certain Flash Memory Circuits & Prods. Containing Same, the Commission stated that "competition policy in the United States favors the protection of *valid* intellectual property rights." No. 337-TA-382, USITC Pub. 40 (June 26, 1997) (Comm'n op.) (emphasis added).

is not, of course, empowered under existing law to set aside a patent as being invalid or to render it unenforceable, and the extent of the ITC's authority under this bill is to take into consideration such defenses and to make findings thereon *for the purposes of determining whether section 337 is being violated*."[245] The legislative history also provided that, as a corollary, "[t]he Commission's findings neither purport to be, nor can they be, regarded as binding interpretations of the U.S. patent laws in particular factual contexts. Therefore, it seems clear that any disposition of a Commission action by a Federal Court should not have a res judicata or collateral estoppel effect in cases before such courts."[246] And so the ITC's determinations on patent issues, even if affirmed on appeal to the Federal Circuit, are not entitled to any preclusive effect in subsequent patent infringement actions in federal court, including decisions on patent validity. The ITC itself has clearly stated that determining patent validity is exclusively reserved for federal courts and the USPTO.[247]

As Matthew Duescher writes:

> Another significant distinction between federal courts and the ITC is the binding effect of judgments in these venues and the asymmetry that results if an asserting party prevails. A ruling obtained in federal court is binding, preventing relief on the same claim from being sought elsewhere. . . . When the parties have had an adequate opportunity to litigate, the ITC acts as an administrative court during its investigations and its determinations of fact have been held to be binding. . . . However, when the ITC rules on issues of law, its determinations have been repeatedly held not to have a collateral estoppel effect for patent disputes. . . . Many important issues in patent infringement, most notably claim construction and aspects of willful infringement, are questions of law, so the nonbinding nature of ITC determinations in such

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[245] S. REP. NO. 1298, at 196 (1974) (emphasis added).
[246] *Id.*
[247] *See* Certain Semiconductor Chips with Minimized Chip Package Size & Prods. Containing Same, Inv. No. 337-TA-605, Pub. 4282, at 6 (July 29, 2009) (Comm'n op.) ("[T]he Commission does not make final binding rulings on any action relating to patents, including determining their validity. *That task is exclusively relegated to federal district courts (28 U.S.C. § 1338) and the USPTO*. Rather, the Commission makes validity findings when considering defenses to a complainant's allegations that there has been a violation of Section 337. These validity rulings have no collateral estoppel effect outside of the Commission's own investigations.") (emphasis added).

> instances leave the asserting parties the option to pursue their claims in federal court if they so choose. This presents a highly exploitable opportunity for patent trolls with a relatively weak case or those facing an opposition with fewer resources since they have the option to potentially go to court twice, or litigate in both courts simultaneously, over the same issue, greatly adding to the litigation expenses of the defendant. If the asserting party prevails, however, the defendant does not benefit from the same asymmetry. Should the ITC rule for the asserting party in their investigation, granting an exclusion order preventing the defendant from importing their infringing products into the United States, the defendant would have no recourse but to appeal, facing an uphill battle in light of the deference to the administrative agency's decision. . . . If the asserting party brings claims in both venues and the two courts come to contradictory conclusions, preliminary injunctions against importation may be put into effect during the appeals process. This asymmetry puts the defendant at an inherent disadvantage by increasing the risk and costs incurred by continuing in court.[248]

The understanding that ITC patent rulings are not binding in district court is based in part on the language of 28 U.S.C. § 1338, which specifically states that federal courts have original and exclusive jurisdiction over a civil action "arising under any Act of Congress relating to patents."[249] The Federal Circuit[250] has also held that, because the ITC merely "considers, for its own purposes under section 337, the status of imports with respect to the claims of U.S. patents," an appeal

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[248] Matthew Duescher, *Controlling the Patent Trolls: A Proposed Approach for Curbing Abusive Section 337 Claims in the ITC*, 96 J. PAT. & TRADEMARK OFF. SOC'Y. 614, 619–20 (2014) (Fed. R. Civ. P. 8(c)(1)) ("*See* Teletronics Proprietary Ltd. v. Medtronic Inc., 687 F. Supp. 832, 846–47 (S.D.N.Y. 1988)") ("*See, e.g.*, Texas Instruments Inc. v. Cypress Semiconductor Corp., 90 F.3d 1558, 1569 (Fed. Cir. 1996)") ("United States v. Mead, 533 U.S. 218, 226–27 (2001)").

[249] 28 U.S.C. § 1338.

[250] Decisions of district courts on patent questions and all decisions of the ITC are appealed to the Federal Circuit. 28 U.S.C. § 1292(c)(2) (patent appeals to Federal Circuit from district court); 19 U.S.C. § 1337 (appeals of ITC determinations must be taken to Federal Circuit).

of a Commission determination to the Federal Circuit "does not estop fresh consideration by other tribunals."[251]

On the other hand, the ITC is required to give res judicata effect to district court decisions.[252] However, and unfairly, this doctrine is rarely relevant in ITC proceedings, since patent trolls can avoid res judicata by filing first at the ITC, or by filing an ITC action along with a district court lawsuit, so the federal court decision will not be handed down before the ITC decides the issue within its expedited timeframes.[253]

Further, after completion of a PTAB proceeding, the party that initiated the review proceeding is precluded from raising in subsequent litigation any of the invalidity arguments it raised or could have raised at the USPTO.[254] This estoppel rule applies not only to U.S. district courts but also to Section 337 investigations,[255] further indicating the primacy of PTAB patent validity determinations within the executive branch.

With this background, in 2022, the USPTO itself recognized the futility of staying PTAB proceedings pending an ITC investigation. A June 21, 2022, memorandum from the Director of the Patent and Trademark Office provides that, because the ITC lacks the statutory authority to formally invalidate patents, the ITC's Section 337 adjudications are not binding on the PTAB or on district courts, and accordingly the outcome of a Section 337 investigation cannot conclusively resolve patent invalidity issues, and therefore, going forward, and in order "to benefit the patent system and the public good,

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[251] Tandon Corp. v. U.S. Int'l Trade Comm'n, 831 F.2d 1017, 1019 (Fed. Cir. 1987). *See also* SCHAUMBERG (3rd ed. 2016), *supra* note 1, at 7 ("The Commission's determinations as to infringement and validity of a patent have no preclusive effect."). Strangely, in 1994, Congress enacted a provision stating that at the request of any party in a § 337 proceeding, "the district court shall stay, until the determination of the Commission becomes final, proceedings in the civil action with respect to any claim that involves the same issues involved in the proceeding before the Commission. . . ." 28 U.S.C. § 1659(a). Such a provision makes little sense since ITC decisions are not given precedential effect in other forums for patent disputes.

[252] *See* Certain Rubber Antidegradants, Antidegradant Intermediates & Prods. Containing the Same, Inv. No. 337-TA-652, Pub. 4264, at 20 (Oct. 1, 2011) (Comm'n Op.) ("[T]he ITC is to give preclusive effect to prior district court decisions.").

[253] *See* Hickerson, *supra* note 129 ("Section 337 cases are extremely fast-paced and usually are completed within 12 to 15 months from institution. In line with this rocket docket, the ITC will not stay proceedings for parallel inter partes review of asserted patents. By comparison, U.S. district court proceedings often take several years and delays are only exacerbated by stays due to parallel inter partes reviews.").

[254] *See* 35 U.S.C. §§ 315(e) and 325(e) (outlining the estoppel effects of IPR and post-grant review, respectively).

[255] *Id*. § 315(e)(2).

the PTAB will not . . . discretionarily deny institution in view of parallel district court litigation where a petition presents compelling evidence of unpatentability."[256]

As it turns out, the Federal Circuit overturns ITC determinations significantly more often than it does decisions of the USPTO.[257] Although the Federal Circuit reverses the ITC more often than the USPTO, indicating some greater degree of accuracy at the USPTO compared to the ITC, the ITC still does not defer to the PTAB,[258] and it has refused (with only one exception)[259] to stay its own proceedings

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[256] *Interim Procedure for Discretionary Denials in AIA Post-Grant Proceedings with Parallel District Court Litigation*, U.S.P.T.O. (June 21, 2022) 6–7, https://www.uspto.gov/sites/default/files/documents/interim_proc_discretionary_denials_aia_parallel_district_court_litigation_memo_20220621_.pdf (emphasis added). Unfortunately, that memo was withdrawn on February 28, 2025. *See* Ryan Davis, *PTAB Denial Rules Shaken Up By Fintiv Memo Withdrawal*, LAW360 (Feb. 28, 2025), https://www.law360.com/articles/2304602/ptab-denial-rules-shaken-up-by-fintiv-memo-withdrawal, [https://perma.cc/NWN3-43CX] ("The U.S. Patent and Trademark Office on Friday rescinded a 2022 memo regarding when the Patent Trial and Appeal Board may deny review of patents based on parallel litigation, which attorneys said gives the board broader discretion on such denials and could lead to more of them . . . Another now-withdrawn aspect of the memo stated that board would not issue discretionary denial based on U.S. International Trade Commission cases since that body does not have the authority to invalidate patents. Friday's order means the board can again cite ITC cases to deny review although the number of such decisions had dropped before Vidal ended the practice.").

[257] *See* SCHAUMBERG & HNATH (5th ed. 2024), *supra* note 61, at 15 & n.29 (citations omitted) ("On appeal of Commission final determinations by issue between August 1, 2021, and July 31, 2022, the Federal Circuit reversed the Commission on 33 percent of the issues captured in the dataset. The Federal Circuit reversed the PTO on 20 percent of the issues . . . .").

[258] *See* Certain Road Constr. Machines & Components Thereof, Inv. No. 337-TA-1088, Comm'n Order at 5 (Jan. 31, 2020) ("The Commission finds, consistent with past practice, that the PTAB's final written decision is insufficient to support a likelihood of success on the merits in this case."); Certain Network Devices Related Software & Components Thereof, Inv. No. 337-TA-945, Comm'n Op. at 12–13, 18 (Aug. 16, 2017).

[259] *See* SCHAUMBERG & HNATH (5th ed. 2024), *supra* note 61, at 16 n.37 ("To date, the ITC has issued one stay pending completion of an IPR. Specifically, the ALJ granted an unopposed motion to stay the investigation pending Federal Circuit review of an IPR final written decision that found all asserted claims to be unpatentable. Certain Integrated Circuits with Voltage Regulators & Prods. Containing the Same, Inv. No. 337-TA-1024, Order No. 55 (Aug. 31, 2018) (considering the fact that the patent did not expire for ten years, giving the complainant time to seek further relief if the IPR decision was reversed on appeal, and that *the complainant did not oppose the stay*)."). *See* Certain Integrated Circuits with Voltage Regulators & Prods. Containing the Same, Inv. No. 337-TA-1024, Order No. 55 (Aug. 31, 2018) (granting an unopposed motion to stay the investigation). The remaining requested stays pending IPRs have been denied based

pending PTAB patent validity determinations[260] due to its perceived need to act fast.[261]

The ITC's refusal to stay pending PTAB reviews is yet another reason patent trolls are attracted to the ITC.[262]

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on the statutory language of Section 337 requiring investigations to be concluded "at the earliest practicable time." *See* Certain Bassinet Prods., Inv. No. 337-TA-597, Order No. 11 at 3 (Sept. 10, 2007).

[260] *See* SCHAUMBERG & HNATH (5th ed. 2024), *supra* note 61, at 266 ("[T]he ITC will not stay an investigation while an IPR is pending.") & 15 ("[I]n contrast to district courts, the ITC has not seen fit to stay Section 337 investigations on the grounds that the asserted patents are the subject of concurrent, post-grant proceedings underway at the PTO to examine patentability, including Inter Partes Review (IPR) proceedings."). *See also* David McCombs, Eugene Goryunov & Jonathan Bowser, *IPR tricks of the trade: discretionary institution when there is parallel ITC investigation*, 28 NO. 24 WESTLAW J. INTELL. PROP. 03 (Mar. 9, 2022) ("The ITC sets a target date of approximately 16 months for the conclusion of most investigations. Within that target date, an Administrative Law Judge (ALJ) of the ITC conducts an evidentiary hearing within nine to 11 months after commencement of the investigation, and then issues an initial determination (ID) within about 11 to 12 months after commencement. The ITC then issues its final determination (FD) by the 16-month target date. By contrast, if the PTAB institutes an IPR trial, it typically issues a final written decision within approximately 18 months from the filing of the petition. Thus, even if a respondent in the ITC filed an IPR petition the same day it was served with an ITC complaint, the ITC will typically issue its final determination before the PTAB would issue a final written decision for the same patent.").

[261] *See, e.g.*, Certain Automated Storage & Retrieval Sys., Inv. No. 337-TA-1228, Order No. 6 (Mar. 9, 2021) ("But a unilateral decision staying an investigation whenever a party files for PTAB review would in many cases result in long delays of proceedings under section 337, in contravention of the statutory requirement to proceed 'at the earliest practicable time.") (quoting 19 U.S.C. § 1337(b)(1)); Certain Laser-Driven Light Sources, Inv. No. 337-TA-983, Order No. 8 (Mar. 3, 2016) (denying request for stay in view of pending petitions for IPRs concerning asserted patents); Certain Microelectromechanical Sys. (MEMS Devices) & Prods. Containing the Same, Inv. No. 337-TA-876, Order No. 6 (May 31, 2013).

[262] *See* SCHAUMBERG & HNATH (5th ed. 2024), *supra* note 61, at 24 n.19 ("The enactment of the America Invents Act (AIA) in 2011 created new post-patent issuance proceedings conducted by the Patent Trial and Appeal Board at the USPTO, such as Inter Partes Review (IPR). On the one hand, the pendency of such proceedings involving a patent asserted in district court has allowed defendants to successfully obtain stays while patentability is reconsidered by the PTAB. On the other hand, because the ITC must conclude an investigation and make its determination under Section 337 'at the earliest practicable time,' see 19 U.S.C. 1337(b)(1), stays are rarely granted at the ITC, even when patentability is being reconsidered by the USPTO. *For this additional reason, post-AIA, the ITC is often the preferred forum for patent infringement actions involving imported goods . . . .*") (emphasis added).

VI. HOW THE ITC COULD REFORM ITSELF

Now that the Supreme Court has overruled its *Chevron* opinion[263] that had created a doctrine of "*Chevron* deference" to agency interpretations of vague statutory text, the ITC itself, as well as courts, should reevaluate the meaning of the 1988 amendments in light of the "single, best" meaning of its legislative text,[264] with an eye toward returning to its original mission of protecting American industry from unfair trade practices, including assertions of invalid patents by patent trolls and their third party funders.

One step toward that goal would be for the ITC to defer to the PTAB on patent validity determinations.[265] The ITC understands that it has the authority to do just that. *In re Certain Laparoscopic Surgical*

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[263] *See* Loper Bright Enterprises v. Raimondo, 144 U.S. 2244, 2254 (2024) ("Our *Chevron* doctrine requires . . . [that] if the court determines that the statute is silent or ambiguous with respect to the specific issue at hand, the court must, at *Chevron's* second step, defer to the agency's interpretation if it is based on a permissible construction of the statute . . . . *Chevron* defies the command of the APA [Administrative Procedure Act] that 'the reviewing court'—not the agency whose action it reviews—is to 'decide all relevant questions of law' and 'interpret . . . statutory provisions.' [5 U.S.C.] § 706 (emphasis added). It requires a court to ignore, not follow, 'the reading the court would have reached' had it exercised its independent judgment as required by the APA . . . *Chevron* cannot be reconciled with the APA, as the Government and the dissent contend, by presuming that statutory ambiguities are implicit delegations to agencies . . . . As *Chevron* itself noted, ambiguities may result from an inability on the part of Congress to squarely answer the question at hand, or from a failure to even 'consider the question' with the requisite precision. In neither case does an ambiguity necessarily reflect a congressional intent that an agency, as opposed to a court, resolve the resulting interpretive question.").

[264] *See id.* at 2266, 2268, 2273 ("[Courts] understand that such *statutes*, no matter how impenetrable, do—in fact, must—have a *single, best meaning*. That is the whole point of having written statutes . . . . It is reasonable to assume that Congress intends to leave policymaking to political actors. But resolution of statutory ambiguities involves legal interpretation. That task does not suddenly become policymaking just because a court has an agency to fall back on. Courts interpret statutes, no matter the context, based on the traditional tools of statutory construction, not individual policy preferences . . . . [C]ourts need not and under the APA may not defer to an agency interpretation of the law simply because a statute is ambiguous.") (emphasis added).

[265] The doctrine of issue preclusion requires an exhaustion of appeals before the ITC is bound by a final written decision of the PTAB. *See* Certain Network Devices, Related Software & Components Thereof (II), Inv. No. 337-TA-945, Comm'n Op. at 11–14 (Aug. 16, 2017). That means the ITC should stay any of its decisions related to patent validity until after the PTAB and the federal appeals courts have made their decisions on the issue.

Staplers, Reload Cartridges, & Components Thereof,[266] the complainant argued the ITC did not have the authority to limit the time within which a remedial order would be applied. The ITC rejected that argument and held that it has the power to "tailor[] the scope of its remedy to a particular period of time."[267] To find otherwise, the ITC wrote, would conflict with the Federal Circuit's statements that the ITC has "broad discretion in selecting the form, scope, and extent of the remedy."[268] According to the ITC, this broad discretion includes the ability to set the time during which a remedial order would be in force.[269]

Additionally, the Federal Circuit is largely deferential to the ITC's remedy determinations, reversing them only when they are "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law."[270]

The ITC has existing authority to require a bond during the pendency of the President's 60-day review period regarding its remedial orders.[271] Congress could also pass legislation to allow respondents to post a bond pending PTAB review of any disputed patents.

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[266] Certain Laparoscopic Surgical Staplers, Reload Cartridges, and Components Thereof, Inv. No. 337-TA-1167, Comm'n Op. at 63–64 (Dec. 20, 2021).
[267] *Id*. at 64–65.
[268] *Id*.
[269] *Id*. at 65. *See also* Certain Power Semiconductors, & Mobile Devices & Computers Containing Same, Recommended Determination on Remedy, Bonding, and the Public Interest Inv. No. 337-TA-1308, USITC at 2 (June 1, 2023) ("The Commission has broad discretion to select the form, scope, and extent of the remedy imposed for a violation of section 337."); Certain Handbags, Luggage, Accessories & Packaging Thereof, Inv. No. 337-TA-754, Initial & Recommended Determination at 18 (Mar. 15, 2012).
[270] *See* Spansion, Inc. v. Int'l Trade Comm'n, 629 F.3d 1331, 1358 (Fed. Cir. 2010). *See also* 5 U.S.C. § 706 ("The reviewing court shall . . . hold unlawful and set aside agency action, findings, and conclusions found to be . . . arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law . . . .").
[271] *See* SCHAUMBERG & HNATH (5th ed. 2024), *supra* note 61, at 223 ("As set forth in both Section 337 and the Commission's regulations, respondents can continue to import during the 60-day period for Presidential review of Commission remedial orders if a bond is posted sufficient to "protect complainant from any injury."); 19 U.S.C. § 1337(j)(3); 19 C.F.R. § 210.50(a)(3). *See also* Hyundai Electronic Indus. Co., Ltd. v. U.S. Int'l Trade Comm'n, 899 F.2d 1204, 1208 (Fed. Cir. 1990) ("Congress . . . desire[d] to subject Commission determinations on the public interest . . . bonding, and remedy, to a less stringent standard of judicial review than determinations of substantive violations of section 337."). Longstanding ITC precedent makes clear that "[t]he bond should not be set so high as to effectively prevent importation during the Presidential review period." Certain Digital Televisions & Certain Prods. Containing Same & Methods of Using Same, Inv. No. 337-TA-617, Comm'n Op. at 19 (Apr. 23, 2009).

Also, the ITC, in its assessment of "domestic industry," should give no weight to the sort of licensing activity engaged in by patent trolls that has been dubbed "ex post" licensing. In its *Coaxial Cable* decision, the ITC divided licensing activities into two types. The first is what it called "advantage-taking" licensing—that is, licensing that involves getting a royalty on a product already in production by others ("ex post"). The second is what it called "productive" licensing—that is, licensing which helps bring a patented technology to market prior to production ("ex ante").[272] While acknowledging that Congress only had "productive" licensing in mind when amending the statute, the ITC nonetheless found the statutory term "licensing" to encompass both types of behavior.[273] The ITC could have decided to give no weight to "advantage-taking" licensing activities that were solely revenue-driven, as Congress intended, but it did not, explicitly stating in *Certain Computers and Computer Peripheral Devices, and Components Thereof, and Products Containing Same*, that "[w]e reject the respondents' invitation to impose a production-driven requirement on licensing-based domestic industries. We note that we have expressed a preference—but not a requirement—for production-driven licensing, giving more weight to evidence of such licensing."[274] The ITC should take advantage of the opportunity provided by *Loper Bright Enterprises v. Raimondo* to apply the "single, best" interpretation of the statute and give *no weight* to patent trolls' purely revenue-driven licensing activities when assessing the presence of a "domestic industry."

Robin Feldman and Mark Lemley found that revenue-driven patent troll licensing demands don't lead to innovations or technology transfers, but simply involve forced payments by troll victims for the freedom to keep doing what the licensee was already doing. As they report:

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[272] *See* Certain Coaxial Cable Connectors and Components Thereof and Products Containing Same, Inv. No. 337-TA-650, Comm'n Op. at 49–50 (Apr. 14, 2010), ("[I]n ordinary usage, the term 'exploitation' [of a patent] would cover licensing activities that 'put [the patent] to a productive use,' *i.e.*, bring a patented technology to market, as well as licensing activities that 'take advantage of the patent,' *i.e.*, solely derive revenue. Congress's use of the term 'licensing' therefore also covers both types of licensing activities. Accordingly, in assessing whether the domestic industry requirement has been met, we will also consider licensing activities for which the sole purpose is to derive revenue from existing production.").

[273] *Id*. ("To the extent the examples contained in the legislative history may be understood to convey an intent of Congress, they identify instances in which licensing activities encourage practical applications of the invention or bring the patented technology to the market.").

[274] Certain Computers and Computer Peripheral Devices, and Components Thereof, and Products Containing Same, Inv. No. 337-TA-841, Comm'n Op. at 37 (Jan. 9, 2014) (public version).

> The [survey] responses suggest that licensing requests from [patent trolls] rarely lead to direct or indirect markers of innovation. . . . The results were even stronger when respondents were asked about indirect markers of innovation. With almost complete unanimity, respondents who took licenses from [patent trolls] rarely received technical knowledge, transfer of personnel (including consulting agreements), or joint ventures along with the patent license.[275]

As Feldman and Lemley write elsewhere:

> Under these circumstances, patent licensing does not benefit society by encouraging learning or dissemination of the patentee's invention. The dissemination of that technology was already happening, no thanks to the patentee; the patent troll is just collecting a tax from people who not only came up with the idea on their own, but actually put the invention into practice.[276]

And as Colleen Chien has written, "[the ITC] should apply the statutory preference it recognized in the *Coaxial Cable* case for ex ante over ex post licensing in order to exclude rent-seeking behavior."[277]

The Federal Circuit has also recognized that one of the "positive benefits" of the patent system is the encouragement not of patent exploitation for revenue purposes, but the creation of "new jobs and new

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[275] Mark A. Lemley & Robin Feldman, *Is Patent Enforcement Efficient?*, 98 B.U.L. REV. 649, 657 (2018).

[276] Robin Feldman & Mark A. Lemley, *Do Patent Licensing Demands Mean Innovation?*, 101 IOWA L. REV. 137, 143 (2015).

[277] Colleen Chien, *The International Trade Commission in Patent Disputes*, Written Testimony before the House Committee on the Judiciary (July 18, 2012), at 7, https://digitalcommons.law.scu.edu/cgi/viewcontent.cgi?article=1437&context=facpubs. *See also* FED. TRADE COMM'N, TO PROMOTE INNOVATION, *supra* note 44, at 23 ("The timing of negotiations affects whether licensing arrangements will adequately reward both initial and follow-on innovation. Results are most likely to be problematic when licensing occurs ex post, that is, after the follow-on innovator has incurred the sunk costs of its R&D efforts. At that point, the follow-on innovator is exposed: it must secure a license now, after its investments are sunk. Faced with opportunistic demands, the follow-on innovator may not receive rewards adequate for its contribution."); FED. TRADE COMM'N, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* (Mar. 2011), at 52, http://www.ftc.gov/os/2011/03/110307patentreport.pdf [https://perma.cc/ZG9J-29UD] ("When a company commercializes technology that it invented independently and later faces a patent assertion, the resulting ex post license provides no direct benefit to consumers, however.").

industries, new consumer goods and trade benefits,"[278] none of which is supplied by patent trolls.

The ITC also has the unique statutory authority to make exceptions to the remedies it would otherwise impose based on "public interest" considerations.[279] 19 U.S.C. § 1337(d) provides that:

> If the Commission determines, as a result of an investigation under this section, that there is a violation of this section, it shall direct that the articles concerned, imported by any person violating the provision of this section, be excluded from entry into the United States, *unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry*.[280]

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[278] *See* Loctite Corp. v. Ultraseal, Ltd., 781 F.2d 861, 876–77 (Fed. Cir. 1985) ("The patent system, which is rooted in the United States Constitution (Art. I, § 8, cl. 8), serves a very positive function in our system of competition, *i.e.,* 'the encouragement of investment based risk.' By so doing, it 'encourages innovation and its fruits: new jobs and new industries, new consumer goods and trade benefits.'") (citations omitted).

[279] *See* SCHAUMBERG (3rd ed. 2016), *supra* note 1, at 8 ("Another unique aspect of Section 337 investigation, again reflecting its origin as a trade statute, is the mandated consideration of the *public interest*. If the Commission finds a violation of Section 337, before it issues a remedy, it must consider the impact of any relief upon the *public interest*, which is defined to include (1) the public health and welfare, (2) *competitive conditions* in the United States, (3) the production of competitive articles in the United States, and (4) U.S. consumers.") (emphasis added).

[280] 19 U.S.C. § 1337(d). Much of the ITC's potential flexibility also derives from 19 U.S.C. § 1337(c), which provides that "Notwithstanding the foregoing provisions of this subsection, Commission determinations under subsections (d), (e), (f), and (g) with respect to its findings on the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, the amount and nature of bond, or the appropriate remedy shall be reviewable in accordance with section 706 of title 5 [the Administrative Procedures Act]." (emphasis added) *See also* Kyocera Wireless Corp. v. U.S. Int'l Trade Comm'n, 545 F.3d 1340 (Fed. Cir. 2008) ("Mindful of the potentially disruptive effect on the U.S. economy that a broad exclusion order could have, Congress provided the Commission with the discretion not to impose such a broad exclusion if the Commission found that it would not be in the public interest."). The Federal Circuit has held that the ITC has "broad discretion" in making remedy determinations under this provision. Hyundai Elecs. Indus. Co. v. U.S. Int'l Trade Comm'n, 899 F.2d 1204, 1209 (Fed. Cir. 1990) ("[T]he

In *Loper Bright*, the Supreme Court overruled *Chevron v. Natural Resources Defense Council, Inc.*,[281] which had required judicial deference to agencies in the interpretation of ambiguous statutory provisions. However, in *Loper Bright*, the Court made clear that Congress may still grant agencies interpretive authority, provided that grant is specifically included in a governing statute, as it is regarding the ITC's "public interest" exception authority.[282]

To the detriment of its own mission, the ITC has used the public interest exception provision exceedingly rarely, and its last use was many decades ago.[283] The ITC's avoidance of the provision flies in the face of the legislative history of its governing statute, which shows Congress intended the public interest factors to be the ITC's "overriding considerations" in the administration of the statute. As the Senate report on the legislation states:

> The Committee believes that the 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. Therefore, under the Committee bill, *the Commission must examine (in consultation with the other Federal agencies) the effect of issuing an exclusion order or a*

Commission has broad discretion in selecting the form, scope, and extent of the remedy, and judicial review of its choice of remedy necessarily is limited.") (quoting Viscofan, S.A. v. U.S. Int'l Trade Comm'n, 787 F.2d 544, 548 (Fed. Cir. 1986)).

[281] Chevron U.S.A., Inc. v. Nat. Res. Def. Council, 467 U.S. 837 (1984).

[282] *See* Loper Bright Enter. v. Raimondo, 144 S.Ct. 2244, 2268 (2024) ("[Our holding] is not to say that Congress cannot or does not confer discretionary authority on agencies. Congress may do so, subject to constitutional limits, and it often has. But to stay out of discretionary policymaking left to the political branches, judges need only fulfill their obligations under the APA [Administrative Procedure Act] to independently identify and respect such delegations of authority, police the outer statutory boundaries of those delegations, and ensure that agencies exercise their discretion consistent with the APA.").

[283] *See* SCHAUMBERG (3rd ed. 2016), *supra* note 1, at 8 ("Historically these public interest factors have not played a prominent role in Commission determinations. Indeed, only three investigations out of more than 950 have resulted in a denial of relief due to negative effects on the public interest."); William Jenks, *Public Interest Provisions in the Advancing America's Interests Act,* PATENT PROGRESS (Aug. 23, 2023) https://www.patentprogress.org/2023/08/public-interest-provisions-in-the-advancing-americas-interests-act/ [https://perma.cc/Q9NS-5UBP] ("Public interest is essentially a dead letter at the International Trade Commission. Per the U.S. Court of Appeals for the Federal Circuit, the 'Commission has found public interest considerations to outweigh the need for injunctive relief . . . in only three investigations.' Given that the International Trade Commission has instituted over 1,300 investigations since 1975, three is essentially zero.").

> *cease and desist order on the public health and welfare before such order is issued*.[284]

The Senate report on the Trade Act of 1975 even cites the preventing of the perpetuation of monopolistic practices as a specific reason the Commission *should exercise* its public interest exclusion authority. The Senate report states:

> Should the Commission find that issuing an exclusion order would have a greater adverse impact on the public health and welfare; on competitive conditions in the United States economy; on production of like or directly competitive articles in the United States; or on the United States consumer, than would be gained by protecting the patent holder (within the context of the U.S. patent laws) then the Committee feels that such exclusion order should not be issued. *This would be particularly true in cases where there is any evidence of price gouging or monopolistic practices in the domestic industry*.[285]

Along with the arguments made throughout this Article, Thomas Broughan III has also written that many of the practices of patent trolls can be easily characterized as price gouging and monopolistic practices:

> Charging exorbitant license fees is almost certainly a type of price gouging. Similarly, limiting competition for your (or your licensees') products by asserting a patent that covers only a small component of competitors' final products certainly seems like evidence of monopolistic practices—competition is reduced by a tenuous claim to injury. These are behaviors that the Commission should give great weight when balancing the public interest with the IP owner's interest.[286]

The Commission itself has stated that the central purpose of Section 337 is "to prevent *every type* of unfair act or practice in import

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[284] S. REP. NO. 93-1298 (1974) (emphasis added).
[285] *Id*. (emphasis added).
[286] Thomas A. Broughan, III, *Domestic Industry Requirements for the Global Economy*, 19 FED. CIR. BAR J. 41, 76 (2006).

trade that *harms U.S. industries*" and that it is obligated to construe the statute "to effectuate this central purpose of Section 337."[287]

The ITC could use its public interest exception authority toward the goal of restoring the ITC to its original mission by revisiting its decisions that have taken it so far afield regarding the licensing loophole it has created to shoehorn patent trolls into the "domestic industry" category.

The broad discretion of the ITC also gives it the power, and the duty, to apply the term "domestic industry" in ways that recognize "market realities," [288] such as the legal rules that are warping them. The ITC's current policies fail to recognize market realities by relying too heavily on a patent's "presumption of validity" to put the thumb on the scale for patent trolls, even before the PTAB has confirmed that a patent is valid. As Chien and Lemley write:

> The ITC views enforcing patents as in the public interest, resulting in a thumb on the scale in favor of the patentee in public interest analyses. The Federal Circuit has accepted this approach; the Federal Circuit affirmed the ITC's imposition of a significant penalty, saying: "Finally, addressing the 'public interest' factor, the Commission determined that the public interest favors the protection of intellectual property rights and weighs in favor of a 'significant penalty.'"[289]

The ITC should not consider as evidence of "domestic industry" the mere legal leverage provided by the "presumption of validity" of a patent to coerce others to agree to licenses, especially when the validity of the patent has not been affirmed by the PTAB. To do otherwise is to risk taking part in the perpetuation of unjust monopolies in direct violation of its fair trade mission.

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[287] Certain Digital Models, Digital Data, & the Treatment Plans for Use in Making Incremental Dental Positioning Adjustment Appliances, the Appliances Made Therefrom, & Methods of Making the Same, Inv. No. 337-TA-833, Comm'n Op. (Pub. Version), at 21–22 (April 3, 2014) (emphasis added).

[288] *See* Certain Rotary Wheel Printing Sys., Inv. No. 337-TA-185, USITC Pub. 1857, Initial Determination (Pub. Version), at 243 (May 1986) (ALJ stating "the industry must be defined in accordance with market realities.").

[289] Chien & Lemley, *supra* note 155, at 20–21. Chien and Lemley also note that a previous Federal Circuit decision was more ambiguous on this point, citing Rosemount, Inc. v. ITC, 910 F.2d 819, 822 (Fed. Cir. 1990) ("We also agree with the Commission's rejection of the view that the public interest inevitably lies on the side of the patent owner because of the public interest in protecting patent rights, although that is one factor to consider and may be a dominant factor."); San Huan New Materials High Tech, Inc. v. International Trade Commission, 161 F.3d 1347, 1363 (Fed. Cir. 1998).

As Lemley and Weiser write:

> [W]e believe that courts should develop core cases where injunctions are viewed as presumptively appropriate or presumptively inappropriate. It is quite clear to us, for example, that courts should cast a skeptical eye at claims for injunctive relief where the patent owner is not a direct competitor of the defendant, where the defendant did not copy the invention from the patent owner, and where the patented invention is only a small part of an overall product. In such cases, an injunction does not seem necessary for market exclusivity or deterrence purposes, and it is likely to cause significant harm to the makers of products.[290]

The same advice should apply to the ITC, which has broad discretion to exclude patent trolls from investigations under its authority to make exceptions in the "public interest." Because the business model of patent trolls and their third-party funders do not involve creating anything other than money settlements from lawsuits, these entities do not belong in a forum devoted to increasing trade by American companies.

Also, the legislative history of the 1988 amendments states "the Commission must examine (in consultation with other Federal agencies) the effect of issuing an exclusion order or a cease and desist order on the public health and welfare before such order is issued."[291] Other federal agencies with interests in preventing the perpetuation of unjust monopolies should therefore weigh in much more regularly with the ITC, including the FTC, whose reports on patent law and anti-competition policy have been cited repeatedly in this Article.[292]

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[290] *See* Lemley & Weiser, *supra* note 89, at 799–800.

[291] S. REP. NO. 93-1298, at 197 (1974), *as reprinted in* 1974 U.S.C.C.A.N. 7186, 7330 (emphasis added).

[292] *See* Chien & Lemley, *supra* note 155, at 43 ("Historically, there have been few instances of agencies submitting formal comments to ITC investigations; Our search of the U.S. ITC Electronic Document Information System for the term 'comments' in section 337 actions yielded a handful of agency comments, see, for example, Certain Wireless Communication Devices, Portable Music and Data Processing Devices, Computers and Components Thereof, Inv. No. 337-TA-745 (June 6, 2012) (Final) (Third Party United States Federal Trade Commission's Statement on the Public Interest), as well as comments from Congress and a few states; but where a proposed exclusion order poses a danger to the public interest, other agencies can and should weigh in during the ITC review process."). The Code of Federal Regulations additionally directs the ITC to "[c]onsult with and seek advice" from the Department of Health and Human Services, the Department of Justice, and the Federal Trade Commission. 19 C.F.R. § 210.50(a)(2) (2014).

The ITC has found that the public interest warranted exempting certain industries from exclusion orders in only three cases,[293] but the logic embedded in one of those precedents supports their much wider application to prevent patent trolls and their third-party funders from abusing ITC investigations. In *Certain Automatic Crankpin Grinders*, the ITC wrote:

> In view of the fact that Congress and the President have also clearly established a policy requiring automotive companies to increase the fuel economy of automobiles they produce and that some of these companies are encountering difficulties in obtaining automatic crankpin grinders on a timely bases, to produce the *statutorily mandated* energy efficient automobiles, we believe that it is not in the public interest to provide a remedy in this case. This is not merely a matter of meeting the demands of individual consumers for fuel efficient automobiles. The public as a whole has an interest in *conserving fuel through the provision of energy efficient alternatives* represented in this case by automobiles with more efficient engines which are produced with the assistance of crankpin grinders which are the subject of this investigation.[294]

Similarly, Congress statutorily established the PTAB for the specific purpose of making it easier to challenge questionable patents on a timely basis,[295] and the public as a whole has an interest in reducing the number of invalid patents whose existence harms innovation through their assertion at the ITC. Realizing the unique harm the ITC's

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[293] *See* Certain Automatic Crankpin Grinders, Inv. No. 337-TA-60, USITC Pub. 1022, at 1 (Dec. 17, 1979) (Final) (Commission Determination and Order) (car parts necessary for improved fuel efficiency); Certain Inclined-Field Acceleration Tubes and Components Thereof, Inv. No. 337-TA-67, USITC Pub. 1119, at 1, 22–31 (Dec. 29, 1980) (Final) (Commission Action and Order) (scientific equipment for nuclear physics research); and Certain Fluidized Supporting Apparatus and Components Thereof, Inv. No. 337-TA-182/188, USITC Pub. 1667, at 1–2 (Oct. 5, 1984) (Final) (Commission Memorandum Opinion) (hospital burn recovery beds).

[294] Certain Automatic Crankpin Grinders, Inv. No. 337-TA-60, USITC Pub. 1022, at 20 (emphasis added).

[295] The House committee report for the American Invents Act states Congress enacted the AIA in 2011 in response to a "growing sense that questionable patents are too easily obtained and are too difficult to challenge." H.R. REP. NO. 112-98, pt. 1, at 39 (2011).

current rules are causing to America's high-tech industry should give it particular impetus to reform itself in this regard.[296]

While the ITC has essentially abandoned its use of the public interest exception provisions, at least there is today a process in place to allow for the more robust airing of arguments related to the need for more exemptions in the public interest.[297]

Another step toward the goal of restoring the ITC to its original fair trade mission would be for it to allow robust discovery, as it relates to the public interest, into patent troll and third party funding involvement in ITC investigations, under appropriate confidentiality provisions.[298] Third party funding agreements are generally not publicly available, and funders can avoid disclosure by funding lawsuits in jurisdictions that do not have disclosure requirements.[299] The ITC needs to throw more light on the involvement of patent trolls and their third party funders in ITC investigations. At least one Administrative Law Judge, Cameron Elliot, has issued corporate disclosure orders in three

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[296] *See* DUAN, *supra* note 60, at 11 ("By HTS [Harmonized Tariff Schedule] categories, 36.2 percent of [ITC] investigations involved smartphones, computers, or other technological electronics components. Given the public importance of these technologies, multiple commentators and even one ALJ at the ITC find that the public interest factors under section 337 ought to play a significant role. Yet the agency rarely engages with its statutory public interest considerations, having rejected its exclusionary remedies only a handful of times based on the public interest. There thus appears to be a need for the agency to reinvigorate its application of the public interest factors in this substantial subset of its workload.").

[297] *See* SCHAUMBERG (3rd ed. 2016), *supra* note 1, at 9 ("Interest in the public interest factors has recently increased . . . partly as a result of the ITC's detailed treatment of these factors in its Baseband Processor Chips opinion. In 2010, the Commission proposed amendments to its rules of practice and procedure to enable it 'to gather more information on public interest issues arising from complaints filed' and 'to aid the Commission in identifying investigations that require further development of public interest issues in the record, and to identify and develop information regarding the public interest at each stage of the investigation.' The amendments became final on October 19, 2011 and require a complainant to file a statement regarding how the requested relief may impact the public interest while concurrently inviting the public and proposed respondents similarly to submit such statements.").

[298] *See* SCHAUMBERG (3rd ed. 2016), *supra* note 1, at 99 ("*Discovery is not permitted into 'public interest' issues*, except in investigations where the Commission has delegated such issues to the ALJ, which has happened more under the Commission's recently revised rules. 19 C.F.R. 210.10(b), 210.42(a)(1)(ii)(C), 210.50(b)(1).") (emphasis added).

[299] *See* ROBIN DAVIS ET AL., UNITED STATES—OTHER KEY JURISDICTIONS, IN LITIGATION FUNDING 2023, 131–34 (Steven Friel & Jonathan Barnes eds., 2022).

ITC investigations to help identify corporations that possess an ownership interest in the complainant.[300]

The ITC could also use its power to create exceptions in the public interest to exclude remedies that apply when a patent at issue covers just one small part of a much larger product. As Chien and Lemley write:

> In general, an administrative agency's latitude to craft appropriate remedies, while not unlimited, is broad. In Certain Erasable Programmable Read-Only Memories, Components Thereof, Products Containing Such Memories, and Processes for Making Such Memories (EPROMs), the Commission devised a special nine-factor test to apply when an exclusion order implicated so-called "downstream products"—products that incorporated the infringing component. The nine factors in this limited exclusion order require the ITC to evaluate: "(1) "the value of the infringing articles compared to the value of the downstream products in which they are incorporated"; (2) "the identity of the manufacturer of the downstream products" (i.e., whether it can be determined that the downstream products are manufactured by the respondent or by a third party); (3) "the incremental value to the complainant of the exclusion of downstream products"; (4) "the incremental detriment to respondents" of exclusion of such products; (5) "the burdens imposed on third parties resulting from exclusion of downstream products"; (6) "the availability of alternative downstream products which do not contain the infringing articles"; (7) "the likelihood that imported downstream products actually contain the infringing articles and are thereby subject to exclusion"; (8) "the opportunity for evasion of an exclusion order which does not include downstream products"; and (9) "the enforceability of an order by Customs, etc." *This test reflects, in large part, a concern about the proportionality of the ITC remedy to the "wrong" of patent infringement as reflected in Factor 1* ("the value of the infringing articles compared to the value of the

[300] *See* Certain Video Processing Devices and Products Containing the Same, Inv. No. 337-TA-1323 (Nov. 2022); Certain Semiconductors and Devices and Products Containing the Same, Inv. No. 337-TA-1332 (Nov. 2022); and Certain Electronic Devices, Semiconductor Devices, and Components Thereof, Inv. No. 337-TA-1340 (Nov. 2022).

> downstream products in which they are incorporated"), Factor 3 ("the incremental value to the complainant of the exclusion of downstream products"), Factor 4 ("the incremental detriment to respondents" of exclusion of such products), and Factor 5 ("the burdens imposed on third parties resulting from exclusion of downstream products"). Id. When the value of the invention is small compared to the value of the enjoined article that incorporates the invention downstream, the ITC has paused to consider whether the patentee deserves an injunction and if so, what type of injunction is appropriate.[301]

Since the ITC has already taken steps to help prevent unfairness in how "downstream" products would be affected by a remedy, it should go further and, applying the same reasoning, take steps to prevent patent trolls from unfairly demanding exclusion order for products in which only one component out of hundreds or thousands allegedly infringes a patent.

In addition to its public interest exception authority, separate statutory provisions in Section 337 give the President or a delegated representative[302] absolute discretion to exempt respondents from any remedial orders issued by the ITC.[303] Because Section 337 is a trade statute affecting international relations of the U.S., the statute provides for "Presidential review" of any remedial orders the ITC issues. According to the Senate committee report on the legislation:

> It is recognized by the Committee that the granting of relief against imports could have a very direct and substantial impact on United States foreign relations,

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[301] Chien & Lemley, *supra* note 155, at 29–30 (2012) (emphasis added) (quoting See Jacob Siegel Co. v. FTC, 327 U.S. 608, 613 (1946) ("[T]he courts will not interfere except where the remedy selected has no reasonable relation to the unlawful practices found to exist."); Inv. No. 337-TA-276, USITC Pub. 2196, at 124–26 (Final) (Commission Opinion on Violation, and Remedy, Bonding, and the Public Interest).).

[302] In 2005, the President delegated the authority to reject Commission exclusion orders to the U.S. Trade Representative. *See* Assignment of Certain Functions Under Section 337 of the Tariff Act of 1930, 70 Fed. Reg. 43, 251 (July 26, 2005).

[303] *See* 19 U.S.C. § 1337(j); SCHAUMBERG (3rd ed. 2016), *supra* note 1, at 9 ("If the Commission determines a remedy is appropriate, the Commission's determination of violation and remedy is forwarded to the President, together with the record upon which it is based. The President (who has delegated this authority to the Unites States Trade Representative) has 60 days to disapprove, but not alter, the Commission's order 'for policy reasons.' If the President does so, the Commission's action will have no force or effect.").

> economic and political. Further, the President would often be able to best see the impact which the relief ordered by the Commission may have upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers.[304]

The President's power to intervene is not for the purpose of reviewing a ITC finding of a Section 337 violation, but for the purpose of setting aside an ITC-ordered remedy on policy grounds, in which case there is no judicial review of the President's decision.[305] The policy reasons considered during Presidential review are not limited to the public interest factors set forth separately in the statute. There is no prohibition against lobbying the U.S. Trade Representative during the Presidential review period, and interested parties might make presentations to designated officials making the case for a blanket presidential rejection of remedies sought by patent trolls or their third party funders, for a blanket rejection of any ITC-ordered remedies that would apply before the PTAB has determined the validity of the relevant patent, or a blanket rejection of remedies regarding the alleged infringement of a patent that covers only one small part of a much larger product.

1. The Constitutional Duty of Congress to Reform the ITC

Although it has the power to do so, the ITC may not be amenable to reforming itself, as it has indicated it will prioritize raw enforcement of its own decisions, regardless of any PTAB patent validity determination, and over any of the practical purposes underlying patent law. As Sapna Kumar has written:

> In calculating the costs and benefits of downstream exclusion . . . the ITC acts under the belief that exclusion orders [in and of themselves] "spur innovation." Even if the patent holder will not directly benefit from an exclusion of downstream products, *the ITC assumes that the complainant benefits by having its patents enforced*. In Baseband Processor Chips, for example, a downstream order was issued that prohibited the sale of

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[304] S. REP. NO. 93-1298, at 199 (1974).

[305] *See* Duracell, Inc. v. U.S. Int'l Trade Comm'n, 778 F.2d 1578, 1580 (Fed. Cir. 1985) ("Nothing in section 337(g) [the predecessor to section 337(j)] or elsewhere in the statute provides a litigant with a right of review of the President's decision per se.").

> cellular phones that utilized an infringing chipset. . . . This analysis does not take into account the value of the right to exclude granted by the patent right." . . . This order provided no direct financial benefit to Broadcom because it was not producing competing cellular phones and created a significant public interest loss. Id. The Commission nevertheless found that the intrinsic value of exclusion weighed in favor of granting the downstream order. Similarly, the ITC often justifies exclusion orders by relying on the broad claim that "the public interest favors the protection of U.S. intellectual property rights by excluding infringing imports."[306]

In doing so, the ITC ignores the utilitarian basis for patent law,[307] inviting Congress to step in as a policy-maker and reform the ITC by statute.[308]

Former ITC Commissioner Charlotte Lane has argued that for Section 337 to survive the "core problem [of] patent trolls," Congress

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[306] Kumar, *supra* note 146, at 571–72 (quoting *In re* Certain Voltage Regulators, Components Thereof & Prods Containing, Same Inv. No. 337-TA-564, Comm'n Op. (Oct. 19, 2007) (("For these reasons, we disagree with the analysis presented at the Commission Remedy Hearing by Professor Hausman, who stated that the relief to Broadcom was zero. ('A goose egg. Zero . . . We're talking about billions of dollars lost to the public interest and zero gain incrementally to Broadcom.') and citing *In re* Laser Bar Code Scanners and Scan Engines, Components Thereof and Products Containing Same, Inv. No. 337-TA-551, (July 14, 2007).)

[307] *See* HERBERT HOVENKAMP ET AL., IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW § 1.1, at 1–2 (2002) ("The principal basis for intellectual property protection in the United States is the utilitarian or economic incentive framework. That is, intellectual property in the United States is fundamentally about incentives to invent and create."); *see also* FED. TRADE COMM'N, TO PROMOTE INNOVATION, *supra* note 44, at 11 ("If an unwarranted patent confers market power on a patentholder, it can deprive consumers of the benefits of competition without compensating value. The issuance of invalid patents that do not confer market power may also raise societal costs even if they do not raise competition issues."); ROBERT L. HARMON, PATENTS AND THE FEDERAL CIRCUIT § 1.2, at 12 (5th ed. 2001) ("It should not be supposed, however, that there are no public costs associated with the right to exclude. These include inflated prices (invariably absorbed by the consumer), which frequently accompany exclusive rights, and overinvestment. The patent system seeks to maintain an efficient balance between incentives to create and commercialize and the public costs engendered by these incentives.").

[308] The Federal Circuit is in a position to reform the ITC, but it has explicitly declined to do so, stating that such matters should be dealt with by Congress. *In re* Fisher, 421 F.3d 1365, 1378 (Fed. Cir. 2005) (stating "public policy considerations . . . are more appropriately directed to Congress as the legislative branch of government, rather than this court as a judicial body responsible simply for interpreting and applying statutory law.").

needs "to define more clearly what constitutes a domestic business, and enforce an equitable standard for granting an exclusion order."[309] Indeed, Congress has its own unique constitutional duty to reform the ITC and help ensure that it operates in ways that do not contradict the purposes of patent law. As the Supreme Court wrote in *John Deere Co. v. Cook Chemical Co.*:

> [I]t must be remembered that the federal patent power stems from a specific constitutional provision which authorizes the Congress "To promote the Progress of . . . useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries." The clause is both a grant of power and a limitation. This qualified authority, unlike the power often exercised in the sixteenth and seventeenth centuries by the English Crown, is limited to the promotion of advances in the "useful arts." It was written against the backdrop of the practices—eventually curtailed by the Statute of Monopolies—of the Crown in granting monopolies to court favorites in goods or businesses which had long before been enjoyed by the public. The Congress in the exercise of the patent power may not overreach the restraints imposed by the stated constitutional purpose. Nor may it enlarge the patent monopoly without regard to the innovation, advancement or social benefit gained thereby. Moreover, Congress may not authorize the issuance of patents whose effects are to remove existent knowledge from the public domain, or to restrict free access to materials already available. Innovation, advancement, and things which add to the sum of useful knowledge are inherent requisites in a patent system which by constitutional command must "promote the Progress of . . . useful Arts." This is the standard expressed in the Constitution and it may not be ignored.[310]

If the ITC proves it cannot reform itself, Congress should enact legislation that would automatically halt ITC proceedings pending a

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[309] Charlotte R. Lane, *The International Trolling Commission,* WALL ST. J., (Oct. 8, 2013) https://www.wsj.com/articles/the-international-trolling-commissionthe-international-trolling-commission-1381181344, [https://perma.cc/HM6H-NATS].
[310] John Deere Co. v. Cook Chemical Co., 381 U.S. 1, 5–6 (1966) (citing Art. I, § 8, cl. 8).

PTAB review of patent validity, along with other reforms that would require the ITC to conform to its original mission.

CONCLUSION

As Douglas Irwin writes in his book *Clashing Over Commerce: A History of US Trade Policy*:

> US trade policy has been directed toward achieving three principal objectives: raising revenue for the government by levying duties on imports, restricting imports to protect domestic producers from foreign competition, and concluding reciprocity agreements to reduce trade barriers and expand exports. These three Rs—revenue, restriction, and reciprocity—have been the main purposes of US trade policy.[311]

When the ITC facilitates the coercive business models of patent trolls and their third-party funders, it furthers none of these "three principal objectives" of American trade policy over the centuries. The money coerced in settlements does not go to the federal government, but to private patent trolls. Domestic producers (when their products are manufactured overseas) are not protected, but rather targeted for coercive settlements by entities that produce nothing. And the ITC is not involved with reciprocal agreements with foreign nations, but rather with imposing its own patent determinations, without the benefits of PTAB review. To the contrary, the ITC today perpetuates the very sort of unjust monopolies, in the form of invalid patents, which it is supposed to protect American companies from.

The ITC is an epic in the annals of unintended consequences. It began as an advisor to Congress on issues regarding unfair international trade practices that hurt American manufacturers. But after evolving into a largely independent agency, the addition of a few words to its organic statute—intended to address a small copyright issue through an amendment tucked into an over 1,000-page bill—ended up providing an opening for patent trolls to completely transform the ITC into an instrument for leveraging its imbalanced rules to coerce patent infringement settlements from innocent American companies. The ITC's rules and procedures include many of the dysfunctions of the civil justice system, but those dysfunctions are compounded by the ITC's in rem jurisdiction that diminishes protections for persons, and by the ITC's expedited administrative procedures that allow for only one blunderbuss remedy that grossly mismeasures any real injury. The

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[311] IRWIN, *supra* note 12, at 2.

ITC's rules disallow the full airing of arguments, and bypass the federal rules of evidence and procedure, constitutional standing rules, certain patent infringement defenses, and even the PTAB the ultimate executive branch authority on patent validity. The ITC, by failing to defer to the PTAB, perpetuates and rewards unjust monopolies in the form of invalid patents, in direct violation of the fair trade principles it was originally created to uphold. The result is a haven for patent trolls—entities that create nothing themselves, but simply read scripts (supplied by the ITC itself) into litigation records, thereby magically shoehorning themselves into the category of "domestic industry" so they can use unverified patents at the ITC to threaten actual product-makers with total importation bans if they do not succumb to the economic pressure for settlement, regardless of guilt, created by ITC's own anti-competitive rules that directly contradict its founding mission. This will continue until the ITC, or Congress, rights the rules such that the ITC can further its original mission of protecting American companies from unfair trade, rather than perpetuating unjust monopolies in the form of invalid patents used by patent trolls to siphon resources from those same American companies, to the advantage of America's foreign competitors.