INTRODUCTION

Colleen Chien and Mark Lemley’s paper, *Patent Holdup, the ITC, and the Public Interest*, proposes three principal reforms to the manner in which the International Trade Commission (hereinafter, the “ITC” or “the Commission”) should exercise its discretion in awarding exclusion orders against the importation of patent-infringing goods: first, the ITC should sometimes soften the impact of an exclusion order by “grandfathering in existing models or units” that contain an infringing component; second, the Commission should sometimes delay entry of an exclusion order to enable defendants to design around the patent in suit; and third, the Commission should sometimes stay its orders on condition that the defendant pay a “comparably higher bond,” in effect, “a payment of an ongoing royalty” during the period of the stay. I find no fault with any of these proposals, all of which appear to me to be both sensible and feasible; the ITC could simply adopt these measures without a statutory amendment and without invoking the more radical step of denying exclusion orders altogether, on public interest grounds, in a wide swath of cases. Nevertheless, I remain unconvinced that mere reform measures are sufficient to alleviate the core problem—namely, that the ITC lacks any compelling justification for its continued existence. I thus find myself (somewhat to my surprise) largely in agreement with the “abolitionist” views expressed by K. William Watson in a 2012 policy paper published by

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† Briggs and Morgan Professor of Law, University of Minnesota Law School. I thank Peter Paik and Yong Sung Kim for responding to my questions on Korean law. Any errors that remain are mine.


2 See id. at 32–39.

3 See id. at 39, n.208.
the libertarian Cato Institute. 4 In the paragraphs that follow, I first recap the role that ITC proceedings have come to play in U.S. patent infringement litigation, and compare the ITC procedure with both civil actions for patent infringement in the U.S. district courts and with the so-called “border measures” available in some other countries for the exclusion of patent-infringing goods. Second, I explain why the reforms proposed by Chien and Lemley would improve the current state of affairs, but also why I think more radical surgery would be desirable.

I

THE UNIQUE NATURE OF ITC PROCEEDINGS

As Chien and Lemley explain, the ITC is a federal agency charged with hearing complaints arising under § 337 of the Tariff Act of 1930. 6 Section 337 declares unlawful, among other things, “[t]he importation into the United States, the sale for importation, or the sale within the United States after importation . . . of articles that . . . infringe a valid and enforceable United States patent.” 7 This provision of the act applies, however, “only if an industry in the United States, relating to the articles protected by the patent . . . exists or is in the process of being established.” 8 It further specifies that “an 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 . . . (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.” 9 Upon the filing of a complaint, the ITC publishes a notice of investigation and assigns the matter to an administrative law judge (hereinafter, “ALJ”) to conduct a hearing. After the ALJ issues his or her Initial Determination, the losing party may request review from the full commission. 10 Typically, ITC


5 Some portions of this Part are adapted from my book, THOMAS F. COTTER, COMPARATIVE PATENT REMEDIES: A LEGAL AND ECONOMIC ANALYSIS (2013).

6 See Chien & Lemley, supra note 1, at 14.

7 19 U.S.C. § 1337(a)(1)(B) (2006). The act also applies to other forms of intellectual property, but according to Watson, 90% of the ITC’s caseload involves patents. See Watson, supra note 4, at 4.


9 See id. § 1337(a)(3).

investigations are concluded within twelve to sixteen months, after which an appeal from the Commission’s decision may be lodged with the United States Court of Appeals for the Federal Circuit. Upon finding a violation, the ITC “shall direct that the articles concerned...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.” Most of the time, the ITC enters a “limited exclusion order” directed against named parties; general exclusion orders (which are effective even against nonparties) are available only under unusual circumstances. The ITC has no power to award damages.

The ITC has become an increasingly popular venue for patent owners in recent years due to a combination of factors. One is the perception that patent owners have a greater chance of success in the ITC than in federal district court. A second is the aforementioned


12 19 U.S.C. § 1337(d). The President has the power to veto an exclusion order, but the last time this happened was in 1988. See id. § 1337(j)(2); Watson, supra note 4, at 8.


14 See Chien & Lemley, supra note 1, at 5.


16 See Colleen V. Chien, Patently Protectionist? An Empirical Analysis of Patent Cases at the International Trade Commission, 50 WM. & Mary L. Rev. 63, 63–64 (2008) (reporting that an analysis of “every patent investigation initiated at the ITC from 1995 to mid-2007” reveals that “[w]hen cases were adjudicated, plaintiffs at the ITC were more likely to win than plaintiffs in district court (58 percent vs. 35 percent),” although “when cases filed in both
length of ITC proceedings: approximately twelve to sixteen months. In comparison, the time to trial in federal district court varies from a low of just under a year in a small number of “rocket dockets” to, more commonly, two to three years in other popular patent infringement venues.17 Third, although in theory the Commission or the President could decide that a given exclusion order would disserve the public interest, in practice, exclusion orders are virtually automatic if the complainant wins.18 The 2006 eBay, Inc. v. MercExchange, L.L.C. decision,19 which requires courts to weigh the equities of granting a permanent injunction in a civil action (and which has resulted in the denial of a permanent injunction in approximately one-quarter of all cases in which patent owners prevail at trial), does not apply in ITC proceedings.20 Fourth, both the Federal Circuit and the ITC have held that a firm that licenses its U.S. patents qualifies as a “domestic industry” and thus may invoke the jurisdiction of the ITC.21 Fifth, certain defenses available in civil actions for patent infringement do not apply in ITC proceedings.22 Sixth, commencing litigation in the ITC does not prevent the filing of parallel proceedings in the federal district courts—indeed, according to Chien and Lemley, patentees file parallel actions approximately

venues were compared, most of this difference disappeared (54 percent vs. 50 percent), cutting against claims of an anti-defendant bias,” and that the “ITC takes about half as much time to decide cases, is four times more likely to adjudicate its cases (44 percent vs. 11 percent), and more readily awards injunctions to prevailing patentees (100 percent vs. 79 percent) than district court[s]”; Hahn & Singer, supra note 15, at 402 (reporting that “[b]etween 1975 and 1988, the complainant prevailed—achieved a favorable decision or a settlement—in 65% of patent cases brought to the ITC, compared with a 40% to 45% win rate for patent plaintiffs in federal district courts,” and that “[i]n more recent years, the ITC ‘has decided 54 percent of contested cases in favor of the patent holder’”) (citation omitted).

17 For statistics, see Mark A. Lemley, Where to File Your Patent Case, 38 AIPLA Q. J. 401, 416–18 (2010). According to Barry et al., the average time to trial nationally is about 2.5 years; the median is a little over three years. See BARRY ET AL., supra note 15, at 21.

18 See Chien & Lemley, supra note 1, at 16, 19–20, 37; see also Chien, supra note 16, at 70–71 (highlighting the difference in injunction rates between the ITC and the district courts); Hahn & Singer, supra note 15, at 462 (explaining the “virtual certainty of injunctive relief” at the ITC); Kumar, supra note 4, at 567–68 (“[I]n practice, denials of injunctive relief after a finding of infringement are extremely uncommon, having occurred in only three investigations in the thirty-five year history of the ITC.”).


two-thirds of the time. 23 The district court must stay the civil action, however, upon a timely request by an ITC respondent who is also a party to the civil action pending a final determination by the ITC. 24 (Relatedly, ITC decisions are not accorded preclusive effect in civil litigation, even when they involve the very same parties. 25 This fact could either give the patent owner an advantage or a disadvantage, depending on the outcome of the ITC proceeding.) Thus, despite the absence of certain features that otherwise might lead patent owners to prefer civil actions—in particular, the availability of trial by jury and damages—the number of patent-related ITC proceedings has steadily increased over the past decade. As Chien and Lemley document, only a minority of ITC cases now involve domestic firms complaining about foreign copiers, 26 and a substantial plurality of complaints are filed by nonmanufacturing patent assertion entities (hereinafter, “PAEs”). 27 This latter finding is particularly significant, given that PAEs generally have been unable to obtain permanent

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23 See Chien & Lemley, supra note 1, at 28, 28 n.152; Chien, supra note 16, at 70.
26 See Chien & Lemley, supra note 1, at 26 (citations omitted):

   In a traditional case in which a domestic company sues a foreign counterfeiter, the public interest is clear: ban the importation. But this type of case is less and less common; only 12% of ITC cases fit the prototypical profile of a domestic plaintiff suing a foreign defendant. Though section 337 was created to keep foreign pirates out of American markets, recent PAE cases have targeted domestic companies almost twice as often as foreign ones (209 times versus 123 times, respectively).

   Cases brought against “knockoffs” are also comparatively rare—58% of cases were brought against public companies, which are, for reasons of reputation and brand, unlikely to fit the “counterfeiter” category. More cases also now fit the PAE profile. In addition, reversing the traditional roles, foreign patent holders have sought to enjoin domestic companies from importation.

   See also id. at 14–15 (“Now that most technology products are manufactured overseas and Congress has relaxed the domestic industry requirement, nearly every patentee can bring an ITC complaint, and nearly every accused infringer is a potential ITC defendant, converting the ITC into a mainstream venue in which to file patent grievances.”) (citations omitted).
27 See id. at 17–18. The ITC reports that since the date of the eBay decision, only 8% of its cases have involved complaints filed by “Category 2” nonpracticing entities (i.e., PAEs); another 10% have involved “Category 1” nonpracticing entities, which include “manufacturers whose products do not practice the asserted patents; inventors who may have done R&D or built prototypes, but do not make a product covered by the asserted patents and are therefore relying 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 are relying on licensing to meet the domestic industry requirement; and start-ups that possess IP rights but do not yet manufacture a product that practices the patent.” See FACTS AND TRENDS, supra note 15, at 2. Chien and Lemley note the differences between their own estimates and the ITC’s. See Chien & Lemley, supra note 1, at 18 n.90.
injunctions in civil actions post-*eBay*.28

ITC proceedings are unusual not only in comparison with civil actions in U.S. district courts, but also in comparison with patent-related proceedings that are available in other countries.29 Technically, ITC proceedings are part of the U.S. system of “border measures” designed to exclude infringing products from entering the country. To be sure, most countries have some form of border measures in place for the exclusion of products that infringe certain types of intellectual property rights.30 Article 51 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (hereinafter, “TRIPs”), for example, obligates member states to “adopt procedures to enable a right holder, who has valid grounds for suspecting that the importation of counterfeit trademark or pirated copyright goods may take place, to lodge an application in writing with competent authorities, administrative or judicial, for the suspension by the customs authorities of the release into free circulation of such goods,” and it permits members to “enable such an application to be made in respect of goods which involve other infringements of intellectual property rights, provided that the requirements of this Section are met.”31 In the United States, subject to procedural requirements, the Customs and Border Protection (hereinafter, “Customs”) is authorized to act on request or ex officio to exclude goods that are believed to infringe trademark and copyright rights; its decisions are then subject to administrative and judicial review.32 Customs may exclude *patent*-infringing goods, however, only pursuant to an order from the ITC or a court, not ex officio.33 By contrast, some countries (including Canada and Australia) do not provide border measures against patent-infringing merchandise at all.34 Others permit customs officials to detain trademark, copyright, and patent-infringing products on request or ex officio, although with the

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28 See Chien & Lemley, supra note 1, at 11.
29 See discussion infra note 35 and accompanying text.
30 See COTTER, supra note 5, at 24.
32 For discussion, see TRAINER & ALLUMS, supra note 11, at 94–105, 281–96. Depending on the circumstances, judicial review of Customs decisions may take place in the United States Court of International Trade (a separate body from the ITC), from which an appeal may be taken to the Federal Circuit; it may also take place initially in federal district court. For discussion of this rather confusing body of law, see Alice Alexandra Kipel, The Role of the United States Court of International Trade in the Enforcement of Intellectual Property Rights, 19 TUL. J. INT’L & COMP. L. 627 (2011).
33 See TRAINER & ALLUMS, supra note 11, at 582–93. The ITC also may issue exclusion orders directed at goods that infringe other intellectual property rights, but as noted above, patents make up about 90% of the ITC’s caseload.
34 See COTTER, supra note 5, at 175–76.
understanding that customs officials often are not well-suited to determine whether a given product infringes a domestic utility patent. Common practice in these countries is for intellectual property owners to commence patent infringement litigation against the importer of allegedly infringing merchandise if the importer does not acquiesce in the customs service’s decision to exclude those goods. To my knowledge, however, other patent systems generally do not provide a separate forum that is analogous to the ITC specifically to deal with imports that infringe utility patents.

On the other hand, some of the features that distinguish ITC proceedings from civil litigation in the United States actually make ITC proceedings more like civil litigation in some other countries. These features include the speed of adjudication, which is roughly


36 For general discussion, see id. at 24, 175–76, 248–50, 306–07, 353, and sources cited therein. For further discussion, see DOUGLAS CLARK, PATENT LITIGATION IN CHINA 27–28 (2011); ALEXANDER HARGUTH & STEVEN CARLSON, PATENTS IN GERMANY AND EUROPE: PROCUREMENT, ENFORCEMENT AND DEFENSE 246–47 (2011); MARIUS SCHNEIDER & OLIVIER VRINS, ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS THROUGH BORDER MEASURES 147–51 (1st ed. 2006) (E.U.); Makoto Hattori, Customs Procedures for Goods Suspected of Infringing Patents, 32 A.I.P.P.I. J. 251, 262 (2007) (noting, however, that Japan does provide for administrative appeals from customs decisions). China has a parallel system of administrative and judicial actions for patent infringement, but an administrative action is not, like an ITC investigation, limited to cases involving infringing imports. See CLARK, supra note 36, at 22–25; COTTER, supra note 5, at 343.

the same as one would encounter in German or Japanese judicial proceedings; the fact that the ITC, like the Patents Court in England and designated chambers in many other countries’ courts of first instance, is a specialized tribunal; the absence of juries, which do not decide patent matters anywhere other than the United States; and the near-automatic issuance of injunctions, which resembles practice in Germany in particular.\textsuperscript{37} It is this last feature that causes problems in instances where patent holdup is a serious risk in both Germany (as I discuss in other work)\textsuperscript{38} and the ITC.

\section*{II \hspace{1em} CHIEN AND LEMLEY’S PLAN FOR REFORM}

As noted above, the Tariff Act directs the ITC to exclude infringing goods from entry into the United States unless the Commission finds that the exclusion would disserve the public interest. And as Chien and Lemley note, the ITC has rarely concluded that the public interest weighs against entering an exclusion order.\textsuperscript{39} One type of situation in which the ITC arguably should invoke the public interest to deny an exclusion order is when the patentee has registered the patent in suit as standard-essential and thus has committed to license it on fair, reasonable, and nondiscriminatory (hereinafter, “FRAND”) terms.\textsuperscript{40} Absent unusual circumstances, an exclusion order normally would disserve the public interest in such a case because if the patent is essential to the practice of an industry standard covering products that the defendant makes or sells, there is no practical way for the defendant to avoid using that patent. Therefore, an exclusion order would permit the patentee to exclude a competitor from the market notwithstanding its commitment to license on FRAND terms (which commitment signaled that the patentee was content to reap the rewards from licensing the patent broadly and not to exclude competition). Alternatively, an exclusion order would enable the patentee to extract a higher-than-FRAND royalty in a litigation settlement. After all, if the patentee were content with extracting a FRAND royalty from the defendant, there would have been no reason for it to invoke the ITC’s jurisdiction at all; it could have filed a civil action for patent infringement and sought that remedy in court. Either way, as Chien and Lemley recognize, there is ordinarily no good reason for a court


\textsuperscript{38} See Cotter, supra note 5, at 247–48.

\textsuperscript{39} See Chien & Lemley, supra note 1, at 19–24.

\textsuperscript{40} Members of standard-setting organizations often agree to license all standard-essential patents on FRAND terms. See Cotter, supra note 5, at 58 n.37.


\footnote{\underline{As I have previously observed:}}

\ldots patent holdup involves the strategic use of a patent that reads on a relatively small-value component of a multicomponent end product to extract \textit{ex post} rents that are disproportionate to the \textit{ex ante} value of the invention in comparison with the next-best available alternative. The strategy rests upon the patent owner’s ability to obtain an injunction against the distribution of the end product, after the costs of designing, producing, and distributing the end product have been sunk. At that point, unless the cost of designing around the patent is sufficiently low, the infringer will be willing to pay much more than he rationally would have negotiated \textit{ex ante} in order not to pull the product from the shelves.\ldots To the extent holdup occurs, therefore, it may enable the patent owner to reap economic rents that far exceed the royalties she could have negotiated \textit{ex ante}, before the infringer became locked in to a given design and while other market alternatives may have been available; these rents in turn threaten to inflate the deadweight loss beyond what it otherwise would have been, and thus to impose short-term efficiency losses that may not be justified by any corresponding increase in incentives to invent.\ldots Thus at least where infringement is inadvertent in the sense that it does not involve deliberate copying but rather independent invention; the cost to the user of avoiding infringement \textit{ex ante} and of designing around the patent \textit{ex post} is high; and the patent owner can threaten shutdown in order to extract rents that far exceed the patent’s \textit{ex ante} value, the holdup strategy can be compared to a sort of private tax levied on innovation as practiced by end users. As such, holdup arguably threatens not only short-term efficiency losses but also longer-term, dynamic efficiency losses as well.
Nevertheless, to invoke the public interest as a reason to deny an exclusion order in a much broader swath of cases (though perhaps justifiable as a matter of policy as long as the conditions for patent holdup appear to be present) might be difficult to square with rule-of-law values, given that the Tariff Act exists and appears to contemplate the relatively routine entry of such orders against infringing merchandise. Chien and Lemley also recognize this point and therefore counsel not against denying exclusion orders altogether (outside of the FRAND context), but rather advise delaying the entry of such orders so as to permit defendants time to design around grandfathering in some existing products from the scope of exclusion orders and, in some instances, conditioning the delay upon the defendant’s agreement to post a substantial bond (in effect, to pay an ongoing royalty pending design-around). The ITC has already done the first of these on one occasion and the second more than once. I find no fault with Chien and Lemley’s suggestion that the Commission take such steps to avoid patent holdup as the facts warrant.

III

BUT WOULD ABOLITION BE A BETTER OPTION?

Notwithstanding the desirability of the reforms proposed by Chien and Lemley, it is fair to ask whether ITC proceedings, on balance, would serve the public interest even if the ITC were to fully embrace these reforms. The answer may well be no for several reasons. First, it is hardly clear that ITC proceedings are really necessary to the efficient operation of the patent system. Since the importation of infringing products into the United States—and any subsequent use or resale of such products within the United States—violates 35 U.S.C. § 271(a) anyway, it is difficult to see why patent owners need recourse to the ITC to obtain effective relief (whether that relief be an injunction or damages). True, ITC orders operate in rem and thus (in theory) can be useful in a case in which the importer’s identity is unknown or jurisdiction over that entity is difficult to establish. According to Watson, however, the percentage of ITC cases of this nature is very small and hardly provides a

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43 See Chien & Lemley, supra note 1, at 28–43.
44 See id. at 36 (citing Certain Pers. Data and Mobile Commc’ns Devices and Related Software, Inv. No. 337–TA–710 (Final), USITC Pub. 4331, at 81 (June 2012)).
45 See id. at 33.
46 See 35 U.S.C. § 271(a) (2010) (“Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.”).
compelling justification for the ITC’s existence.\textsuperscript{47} Indeed, as Chien points out elsewhere, in the majority of ITC proceedings, one or more defendants are domestic firms\textsuperscript{48} and district court litigation runs parallel to the ITC investigation.\textsuperscript{49} This unnecessary duplication of effort is a social waste. Moreover, although the speed with which ITC investigations proceed may be a factor weighing in their favor, recent experience shows that comparably speedy adjudication of patent disputes is attainable in some U.S. district courts as well—most notably, the Western District of Wisconsin and the Eastern District of Virginia, which both have an average time to trial of less than one year.\textsuperscript{50} Similarly, although the special expertise and experience of the ITC’s judges and commissioners may serve the purpose of adjudicatory efficiency, many district court judges are in the process of attaining similar levels of expertise through their participation in the Patent Pilot Program.\textsuperscript{51} ITC proceedings also do not appear to be an indispensable feature of a functioning patent system, given that no other major patent system appears to have an analogous system in place. In addition, although I am not an international trade specialist, I note that because ITC investigations are available only for the benefit of domestic industries, there are lingering doubts about the compatibility of the ITC with United States obligations under GATT.\textsuperscript{52} Finally, even if the ITC were to adopt Chien and Lemley’s proposals, the ITC’s inability to order damages only in an appropriate case (other than by creative interpretation of its bonding authority) still poses what seems to be an unnecessary risk of patent holdup.\textsuperscript{53}

I suspect that in today’s poisonous political climate, the idea of eliminating the ITC is unlikely to command much support ("You

\textsuperscript{47} See Watson, supra note 4, at 8.
\textsuperscript{48} See Chien, supra note 16, at 89–90.
\textsuperscript{49} See id. at 92–93.
\textsuperscript{50} See Lemley, supra note 17, at 416.
\textsuperscript{51} See United States Courts, District Courts Selected for Patent Pilot Program, The Third Branch News (June 7, 2011), http://www.uscourts.gov/news/newsview/11-06-07/District_Courts_Selected_for_Patent_Pilot_Program.aspx (noting that fourteen federal district courts were “selected to participate in a 10-year pilot project designed to enhance expertise in patent cases among U.S. district judges,” and that “[a] judge who is randomly assigned a patent case and is not among the designated judges may decline to accept the case.” Rejected cases are “randomly assigned to one of the district judges designated to hear patent cases.”).
\textsuperscript{52} See Chien & Lemley, supra note 1, at 18 n.93; Watson, supra note 4, at 6–7.
\textsuperscript{53} The one clear advantage of ITC proceedings over district court litigation is, in my view, the lack of jury trials—one of several features, as noted above, that ITC proceedings share with patent infringement litigation in other countries. In future work, I hope to address why I think it would be desirable—and perhaps constitutional notwithstanding the Seventh Amendment, though probably not politically feasible anytime soon—to eliminate jury trials in a wide swath of U.S. patent cases. See also Hahn & Singer, supra note 15, at 489 (noting the absence of juries as one possible benefit of ITC proceedings).
really want those infringing imports to flood into the United States, Senator?""). Perhaps, though, in addition to the reforms proposed by Chien and Lemley (which the ITC could adopt on its own), Congress could be persuaded to at least put some teeth into the domestic industry requirement, thus potentially eliminating most complaints initiated by PAEs. In doing so, Congress would serve the public interest by removing at least one source of the innovation tax that we now indirectly pay PAEs for many of the products we consume. Relatedly, as some scholars have suggested, Congress could eliminate the ITC’s jurisdiction except in cases in which there is no other forum in which an infringement proceeding could be brought. This would leave the ITC with something—though probably not a great deal—to do.

CONCLUSION

Chien and Lemley’s proposed reforms of ITC practice are admirable and, unlike much of what law professors (including me) tend to advocate, politically feasible. Perhaps some further congressional tweaking of the ITC’s jurisdiction, at least to reduce the incidence of PAE-instigated investigations, would be attainable as well. Nevertheless, for the reasons outlined above, I am inclined to think that in a better world we would be seriously considering eliminating, rather than merely reforming the nature of, ITC investigations. But none of this kvetching should detract from the importance of Chien and Lemley’s effort to improve ITC practice so as to better serve the public good. As the saying goes, the perfect should not be the enemy of the good, and Chien and Lemley’s recommendations are quite good.

54 See Hahn & Singer, supra note 15, at 488–89; see also Chien, supra note 16, at 106 (considering, but rejecting, this proposal).