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What ITC Means By 'Nexus' In Domestic Industry Test

By **Andrew Riley** (May 20, 2020, 5:26 PM EDT)

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On April 22, the U.S. International Trade Commission issued a limited exclusion order against ACON Laboratories Inc. and ACON Biotech (Hangzhou) Co. Ltd. in an investigation filed by Polymer Technology Systems Inc.[1]

On its way to this victory, Polymer secured a clean sweep for its economic prong of the domestic industry contentions. The commission concluded Polymer made significant investments in plant and equipment, significant investments in labor and capital, and substantial investments in the exploitation of the asserted patents through engineering and research and development, satisfying U.S. Code Title 19 Section 1337 (a)(3)(A), (B) and (C), respectively.[2]

Many clients, and practitioners for that matter, find the ITC's domestic industry requirement confusing, especially with respect to showing a "nexus" for a patent owner's investments in licensing, engineering, or research and development to satisfy the domestic industry requirement under Section 1337(a)(3)(C). This article explains what the ITC means by a "nexus" and outlines the tests used to determine whether investments in licensing, engineering or R&D satisfy the domestic industry requirement.

To succeed at the ITC, a patent owner must show a domestic industry exists or is in the process of being established.[3] This domestic industry requirement includes two prongs: the economic prong and the technical prong.[4] A patent owner can satisfy the economic prong by showing "(A) significant investment in plant and equipment; (B) significant investment in labor or capital; or (C) substantial investment in its exploitation, including engineering, research and development, or licensing."[5] This article focuses on the last clause — engineering, R&D or licensing.

The "its" in the phrase from subsection (C) of the statute "substantial investment in its exploitation," refers to the asserted patent.[6] The ITC requires a nexus between the patent owner's investments and the asserted patent to satisfy this phrase.[7] In practice, what does this mean?

Engineering and R&D

The ITC's 2014 decision in Certain Integrated Circuit Chips and Products Containing the Same provides guidance on how to satisfy the nexus requirement for investments in engineering and R&D. On review, the ITC vacated the administrative law judge's analysis that the patent owner did not satisfy subsection (C) — substantial investment in its exploitation through R&D.[8] However, the ITC reached the same conclusion — no domestic industry through R&D — using a different analysis.[9]

The ITC stated a patent owner must satisfy a three-part test to establish a domestic industry under subsection (C):

> First, is the domestic industry "with respect to the articles protected by the patent," as required by the prefatory language of section 337(a)(3)? Second, has it been shown that there is "investment in [the asserted patent's] exploitation, including engineering, [or] research and development," as required by section 337(a)(3)(C)? Third, is that "investment in [the asserted patent's] exploitation," "substantial," as required by section 337(a)(3)(C)?[10]

The ITC found the first element of this test satisfied by the patent owner in Integrated Circuit Chips but not the second.[11]

For the first element, the ITC broadly asked whether the domestic industry products identified by the patent owner included the patented technology.[12] In that case, the ITC found those products did incorporate the "bond pad" technology from the asserted patents.[13]

For the second element, the ITC examined whether the patent owner directed its R&D investments in the United States to the patented technology.[14] Finding that the patent owner's R&D investments in the patented technology occurred outside the United States, the ITC ruled against the patent owner. "[A]n investment in the article is not automatically an investment in the asserted patent. Were it so, it would impermissibly read out of subparagraph (a)(3)(C) the 'its.'"[15] In other words, a patent owner can establish the first part of the three-part test and not necessarily satisfy the second part.

The ITC did not examine the third part of its three-part test regarding whether the investments met the "substantial" requirement because the patent owner failed to meet the second part.[16] Despite finding against the patent owner, the ITC did offer additional guidance on what evidence would support a nexus for engineering or R&D. For example, the ITC would consider evidence showing "engineers in the United States possessing, modeling, or otherwise taking advantage of the [] patented technology" as supporting a nexus under subsection (C).[17] In addition, evidence of "efforts to improve, develop, or take advantage of the patented technology" may also support a nexus.[18]

Polymer's recent success in Certain Bloodcholesterol Testing Strips and Associated Systems Containing the Same followed this guidance.

Polymer presented investments in "product design and research and development [at] the Indianapolis headquarters facility."[19] These expenses included "labor, fringe benefits, supplies, consulting fees, and testing materials."[20] In addition, Polymer argued its engineering and R&D investments focused on products practicing the asserted patents and Polymer allocated only a portion of the time its engineering and R&D employees spent focused on those products.[21] The accused infringers did not challenge Polymer's domestic industry contentions, and the ITC concluded Polymer engineering and R&D investments satisfied the substantial investment in the exploitation of the asserted patents required by subsection (C).

Licensing

In 2011, the ITC set forth a detailed framework in Certain Multimedia Display and Navigation Devices and Systems, Components Thereof, and Products Containing Same, for examining licensing investments under subsection (C). On review, the ITC reversed the ALJ's finding that the patent owner satisfied the domestic industry requirement through licensing, the only domestic industry contention the patent owner presented.[22]

To make its determination, the ITC offered another three-part test: "First, the statute requires that the investment in licensing relate to 'its exploitation,' meaning an investment in the exploitation of the asserted patent. Second, the statute requires that the investment relate to 'licensing.' Third, any alleged investment must be domestic, i.e., it must occur in the United States."[23]

After finding this three-part test satisfied, the ITC would then examine whether the patent owner's investments are "substantial" within the meaning of the statute.[24] The ITC identified several factors relevant to a finding of "substantial," including:

> (1) the existence of other types of "exploitation" of the asserted patent such as research, development, or engineering, (2) the existence of license-related ancillary activities such as ensuring compliance with license agreements and providing training or technical support to its licensees, (3) whether complainant's licensing activities are continuing, and (4) whether complainant's licensing activities are those that are referenced favorably in the legislative history of section 337(a)(3)(C).[25]

When the patent owner presents licensing investments in a licensing portfolio, as the patent owner did in Multimedia Display, the ITC identified several considerations to determine satisfaction of the nexus requirement. Specifically, the ITC will examine:

> (1) the number of patents in the portfolio, (2) the relative value contributed by the asserted patent to the portfolio, (3) the prominence of the asserted patent in licensing discussions, negotiations and any resulting license agreement, and (4) the scope of technology covered by the portfolio compared to the scope of the asserted patent.[26]

For the "relative value contributed by the asserted patent to the portfolio," the ITC would consider a patent more valuable to a portfolio where:

> there is evidence that (1) it was discussed during the licensing negotiation process, (2) it has been successfully litigated before by complainant, (3) it relates to a technology industry standard, (4) it is a base patent or a pioneering patent, (5) it is infringed or practiced in the United States, or (6) the market recognizes its value in some other way.[27]

For the patent owner's investments in Multimedia Display, the ITC found the patent owner's investments failed to meet the "its exploitation" test.[28] The ITC found the patent owner asserted two patents in its complaint but relied on investments in licensing a portfolio containing more than 1,600 patents and applications from the United States and outside the United States.[29]

Also not in the patent owner's favor — the breadth of the technology areas covered by the portfolio.[30] The ITC found "[t]he evidence indicates a minimal role for the asserted patents in the [licensing] activities in view of (1) the many patents that were being offered by [the patent owner] in its proposed license agreements and (2) the scope of the portfolio as compared to the narrow focus of the asserted patents."[31]

The ITC also investigates unfair trade practices involving trademarks, copyrights and designs, and this discussion also applies to those types of intellectual property.[32] Although the ITC did not find a domestic industry in either Multimedia Display or Integrated Circuit Chips, the tests and subtests from those decisions provide a road map for future patent owners who may seek to use the ITC to solve their intellectual property disputes.

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[1] Certain Bloodcholesterol Testing Strips and Associated Systems Containing the Same, ITC Inv. No. 337-TA-1116, Comm'n Op. at 1-2, 33 (April 16, 2020) ("Bloodcholesterol Testing Strips").

[2] Id. at 2 (noting the Commission declined to review, and therefore made final, Order No. 13, an Initial Determination by the Administrative Law Judge ("ALJ") granting Polymer's motion for summary determination that it satisfied the economic prong of the domestic industry requirement).

[3] 19 U.S.C. §1337(a)(2); Hyosung TNS Inc. v. Int'l Trade Comm'n , 926 F.3d 1353, 1361 (Fed. Cir. 2019).

[4] 19 U.S.C. § 1337(a)(2) & (3); Hyosung, 926 F.3d at 1361.

[5] 19 U.S.C. §1337(a)(3).

[6] Certain Multimedia Display and Navigation Devices and Systems, Components Thereof, and Products Containing Same, Inv. No. 337-TA-694, Comm'n Op., at 7-13 (Aug. 8, 2011) ("Multimedia Display") ("Section 337(a)(3)(C) requires that licensing investments be in exploitation of the 'patent... concerned.'").

[7] Certain Integrated Circuit Chips and Products Containing the Same, Inv. 337-TA-859, Comm'n Op. at 38 (Aug. 22, 2014) ("Integrated Circuit Chips").

[8] Integrated Circuit Chips at 2.

[9] Id. at 34.

[10] Id. at 47.

[11] Id. at 48-50.

[12] Id. at 48.

[13] Id.

[14] Id. at 49.

[15] Id.

[16] Id. at 51.

[17] Id. at 50.

[18] Id. at 45.

[19] Bloodcholesterol Testing Strips, Order No. 13 at 6 (Feb. 13, 2019) (unreviewed).

[20] Id.

[21] Id. at 6-7.

[22] Multimedia Display at 1, 5.

[23] Id. at 7-8.

[24] Id. at 15.

[25] Id. at 16.

[26] Id. at 10.

[27] Id. at 10-11.

[28] Id. at 19-20.

[29] Id. at 19.

[30] Id. at 20.

[31] Id.

[32] 19 U.S.C. §1337 (a)(1)(B), (C), (D), & (E); 19 U.S.C. §1337 (a)(2) ("Subparagraphs (B), (C), (D), and (E) of paragraph (1) apply only if an industry in the United States, relating to the articles protected by the patent, copyright, trademark, mask work, or design concerned, exists or is in the process of being established.").