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Suggested Improvements to Mandatory Mediation Scheduling during International Trade Commission (ITC) Section 337 Investigations

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Suggested Improvements to Mandatory Mediation Scheduling during International Trade Commission (ITC) section 337 Investigations

By Jeff Nall¹

Contents

I. INTRODUCTION.....	2
How does the United States government International Trade Commission (ITC) enable patent owners to enforce their intellectual property rights?.....	2
II. II. HOW IS ITC BEING USED TO EXPLOIT PRO-PLAINTIFF LICENSING SETTLEMENT.....	6
III. HOW IS AN ITC SECTION 337 INVESTIGATION DIFFERENT THAN TRADITIONAL DISTRICT COURT LITIGATION?	8
Parallel Litigation Proceedings Related to ITC Section 337 Investigation and Timelines	11
IV. IV. HOW IS ITC BEING USED TO EXPLOIT PRO-PLAINTIFF LICENSING SETTLEMENT.....	14
V. ROLE OF MEDIATION IN THE ITC PROCESS	15
VI. IMPROVEMENTS TO ITC MEDIATION PROCESS THAT MAY YIELD MORE EFFICIENT OUTCOMES.....	22
The Importance of the <i>Markman</i> Hearing within ITC section 337 Investigations, as it Relates to Concurrent and Future Parallel Litigation	23
Additional Process Improvements	26
VII. CONCLUSION	26

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I. INTRODUCTION

This paper explores the role of mediation within the United States International Trade Commission (“ITC”) investigations relating to complainant intellectual property right assertions against respondents, and opportunities for improvement to the process. Primary research was done through interviews conducted individually with three mediators registered with the ITC and recommended by the ITC for their mediation program. The intent of the interviews was to capture best practices. Further, this paper compares intellectual property litigation systems within the United States and explores recent changes that enhance uniformity between systems that places even more importance on the role of mediation within ITC 337 investigations in settling intellectual property disputes between corporations.

How does the United States government International Trade Commission (ITC) enable patent owners to enforce their intellectual property rights?

Each year goods, worth billions of dollars, are seized at the U.S. border by U.S. Customs and Border Protection (“Customs”) enforcing general exclusion orders (GEOs), issued by the ITC, intended to keep infringing goods out of the country.² The United States International Trade Commission, originally founded as the “Tariff Commission”, was created as an Executive Agency in 1916.³ The ITC serves as the “Nation's major source of information about international trade.”⁴ The ITC is an “an independent agency dedicated to the conduct of factual and objective economic research in the areas of international trade and economics.”⁵ In recent years “customs duties have accounted for only 1 or 2 percent of the Federal Government's total income”⁶ which places more

² See Sarah R. Rajec, *Patents Absent Adversaries*, 81 BROOK. L. REV. 1073, 1076 (2016) (citing statistic that “in 2013, Customs seized \$ 1.7 billion worth of goods for intellectual property rights violations”).

³ *About the USITC*, UNITED STATES INT’L TRADE COMM’N, https://www.usitc.gov/press_room/about_usitc.htm (last visited Apr. 17, 2020).

⁴ John M. Dobson, *Two Centuries of Tariffs, The Background and Emergence of the U.S. International Trade Commission*, UNITED STATES INT’L TRADE COMM’N 1, 132 (1976), <https://www.usitc.gov/publications/other/pub0000.pdf>.

⁵ *Id.* at 1.

⁶ *Id.* at 2.

emphasis on the role of customs to “prevent or restrict the importation of certain goods from abroad” that are not in compliance with U.S. trade policy to protect domestic industries.⁷

The mission of the ITC is to “investigate and make determinations in proceedings involving imports claimed to injure a domestic industry or violate U.S. intellectual property rights; provide independent analysis and information on tariffs, trade and competitiveness; and maintain the U.S. tariff schedule.”⁸ The importation of goods that infringe U.S. intellectual property rights is one type of unfair trade that businesses may use as a basis for filing a complaint with the ITC.⁹

The International Trade Commission (“ITC”), under section 337 of the Tariff Act of 1930,¹⁰ may conduct investigations that involve claims regarding intellectual property rights, including allegations of patent infringement, trademark infringement under the Lanham Act, registered copyright infringement under the Copyright Act, or allegations of unfair competition from trade secret violation the by manufacturers of imported goods.¹¹ Over 80% of investigations conducted by the ITC relate to assertions of patent claim infringement.¹² ITC, section 337, proceedings are an administrative process intended to protect the intellectual property rights of domestic manufacturers against importation of foreign products that may infringe patents of the domestic manufacturer.¹³ The domestic manufacturer first files a complaint with the ITC and becomes the “Complainant.”¹⁴ In the complaint the complainant names potential infringers who as defendants become the “Respondents” within the ITC proceeding.¹⁵ There is no jury involved in the decision for the investigation, the finding of the investigation and the civil rules of procedure are administered by an Administrative Law Judge (ALJ) for the case.¹⁶

⁷ *Id.*

⁸ *About the USITC*, UNITED STATES INT’L TRADE COMM’N, https://www.usitc.gov/press_room/about_usitc.htm (last visited April 17, 2020).

⁹ 19 U.S.C. § 1337 (1994).

¹⁰ *See* 19 U.S.C. § 1337(a)(1)(B).

¹¹ *See* 19 U.S.C. § 1337(a)(1)(A)–(C).

¹² *See* 2019 year data, *Section 337 Statistics: Types of Unfair Acts Alleged in Active Investigations, Fy 2006-FY 2015*, UNITED STATES INT’L TRADE COMM’N, https://www.usitc.gov/intellectual_property/337_statistics_types_unfair_acts_alleged_active.htm (last visited Dec. 4, 2019).

¹³ *See* 19 U.S.C. § 1337.

¹⁴ *See* 19 C.F.R. § 210.12 (1994).

¹⁵ *See* 19 C.F.R. § 210.13(a) (1994) (stating that respondents have 20 days to file a response to the complaint).

¹⁶ *See* USITC, *Section 337 Mediation Program Ninth Update*, 4837 COMMISSIONS PUBLIC LIBRARY 1, 3 (2018), https://www.usitc.gov/intellectual_property/documents/pub4837_mediation_brochure_10_18_2018.pdf.

A complainant may bring charges against any importing business to the U.S. ITC. If the ITC investigation finds in favor of the plaintiff, the remedy is to issue an exclusion order to block import of the products claimed to infringe the plaintiff's intellectual property.¹⁷

The investigation is on an expedited timeline, typically finished within an average of 14 months from filing of the complaint,¹⁸ in contrast to a typical patent litigation procedure in the federal district court that may take several years.¹⁹

Prosecuting and defending litigation within the ITC investigation process is very expensive, often due to the complexity of discovery and time spent developing non-infringement and invalidity arguments. Few law firms specialize in ITC litigation cases, and once named as a respondent, litigation costs may be well over one million dollars per respondent.²⁰ The cost of not participating within the process is an immediate importation ban on all claimed infringing product, unless a license with the complainant is taken.

The ITC has sought to eliminate the capability of 'patent trolls' from exploiting the section 337 investigation process to generate licensing revenue. The ITC has introduced rules that a complaint may only be submitted by a party that can claim a domestic presence, either through domestic manufacturing, domestic headquarters, or licensing to domestic manufactures (as may be the case for a university).²¹

The ITC finds in favor of the complainant in 77% of cases,²² as compared to litigation of patents in federal district courts, shown in figure 1.0, with only a 30-40% win rate for plaintiffs.²³ Therefore, an ITC investigation essentially doubles the likelihood of success for a plaintiff to prevail in patent litigation.

¹⁷ *Id.* at 4.

¹⁸ See 2019 data, *Section 337 Statistics: Average Length of Investigations*, UNITED STATES INT'L TRADE COMM'N, https://www.usitc.gov/intellectual_property/337_statistics_average_length_investigations.htm, (last visited Dec. 4, 2019).

¹⁹ See Todd R. Walters, Attorney, Cleveland Intellectual Prop. Law Ass'n, Presentation at Cleveland Marriott Downtown: Successfully Managing AIA Proceedings in the Thicket of Fed. Litig. (Oct. 24, 2019) at 24.

²⁰ *Id.* at 10.

²¹ See 19 U.S.C. § 1337(a)(2).

²² See 2018-2019 data, *Section 337 Statistics: Number Cases In Which Violations Is Found /YR*, UNITED STATES INT'L TRADE COMM'N, https://www.usitc.gov/intellectual_property/337_statistics_number_cases_which_violation.htm, (last visited Dec. 4, 2019).

²³ See Matthew D. Henry, John L. Turner, *Across Five Eras: Patent Validity and Infringement Rates in U.S. Courts, 1929-2006*, 13 J. EMPIRICAL LEGAL STUDIES 454, 454 (2006).

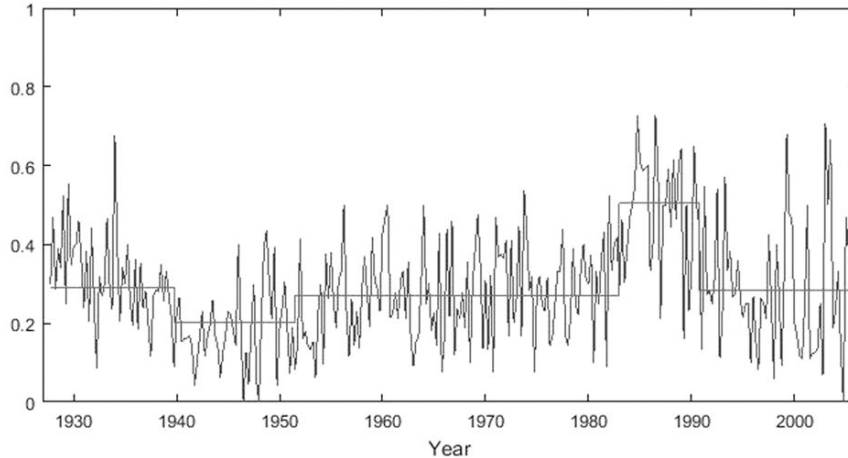


Figure 1.0 Plaintiff “Win rates” in district court patent litigation from 1929-2006²⁴

The ITC process is prescribed with a one-day required Mediation step occurring after discovery processes and submittal of prior art with analysis. Any further time spent in Mediation process greater than one day is not allowed to affect the original investigation timeline.²⁵

The complainant in section 337 investigations with the ITC has unequal power in comparison to the respondents. Recent ITC section 337 cases are being used as an alternate route for litigation than district court, and with a higher probability of success, for small businesses to leverage the process against businesses with a larger domestic presence to force licensing agreements that increase the value of the plaintiff’s patent portfolios.²⁶ Further, within an ITC section 337 investigation, there is no remedy for the defendant (respondent) to recover costs if plaintiff is unsuccessful in their case. Also, potential plaintiffs may consider the costs of a multi-year litigation and accept the increased cost of a compressed ITC investigation, with a much higher rate of success.

Upon filing a claim, the investigation is started.²⁷ However, the Mediation step does not occur until both Plaintiff and Defendant may have already spent well over half of their litigation costs for the investigation. There is little incentive to find settlement, as by this point within the

²⁴ *Id.*

²⁵ See USITC, *Section 337 Mediation Program Ninth Update*, 4837 COMMISSIONS PUBLIC LIBRARY 1, 5 (2018), https://www.usitc.gov/intellectual_property/documents/pub4837_mediation_brochure_10_18_2018.pdf.

²⁶ Bill Watson, *ITC Receives New "Trade" Complaint from Foreign Licensing Company*, ITC POLICY PROJECT NEWSLETTER (May 31, 2019), <https://www.itcpolicy.com/blog/2019/5/31/itc-receives-new-trade-complaint-from-foreign-licensing-company>.

²⁷ See USITC, *Section 337 Mediation Program Ninth Update*, 4837 COMMISSIONS PUBLIC LIBRARY 1, 4 (2018), https://www.usitc.gov/intellectual_property/documents/pub4837_mediation_brochure_10_18_2018.pdf.

investigation both sides are entrenched. The Mediation step would be more efficacious and achieve the goal of removing burden from the courts and the ITC, if performed earlier in the section 337 investigation process.

II. II. HOW IS ITC BEING USED TO EXPLOIT PRO-PLAINTIFF LICENSING SETTLEMENT

In one scenario, a manufacturing company that is on the verge of bankruptcy and owned by private equity could receive litigation financing to file a strike case before the ITC as an attempt to gain equity value for their patent portfolio and seek licensing revenue.²⁸ However, the ALJ from the ITC does not have authority to award damages, instead the ALJ has the power to block importation of entire classes of product from the respondents based on findings from the investigations,²⁹ which then leads to quick licensing settlements from the respondents. Once an investigation is decided in the complainant's favor the "virtual certainty of injunctive relief is a major advantage for complainants."³⁰ A complainant at the ITC "has substantial leverage over an alleged infringer when negotiating a settlement."³¹

Approximately 45% of ITC cases are settled or withdrawn prior to the evidentiary hearing.³² Typically, ITC investigations are heavily favored for the complainant,³³ as presumption of the investigation is that the complainant's claims are truthful, and patent claims are valid. Using the information previously stated that approximately 77% of cases decided by the ALJ are in favor of the plaintiff, coupled with a 45% settlement/withdrawal rate prior to hearing, therefore only approximately 13% of cases yield decisions that vindicate the respondent (defendant). To illustrate in other words, the complainant (plaintiff) is successful in either driving to a settlement, or winning a judgment outright, in roughly 9 out of 10 of the ITC section 337 complaints filed with the ITC.

²⁸ See *In re Certain Light-Emitting Diode Prods.*, INV. NO. 337-TA-1163, 2019 ITC LEXIS 649 (Int'l Trade August 2, 2018).

²⁹ See 19 U.S.C. §§ 1337(d)(2), (f).

³⁰ Robert W. Hahn and Hal J. Singer, *Assessing Bias in Patent Infringement Cases: A Review of International Trade Commission Decisions*, 21 HARV. J. L. & TECH. 457, 462 (2008).

³¹ *Id.*

³² See 2019 data, USITC, *Section 337 Statistics: Number of Cases In Which Violations Is Found/YR*, UNITED STATES INT'L TRADE COMM'N, https://www.usitc.gov/intellectual_property/337_statistics_number_cases_which_violation.htm (last visited Dec. 4, 2019).

³³ *Id.*

Based on these odds, once an investigation has been instituted by the ITC, the respondents should seek mediation as early in the process as possible to preserve business options and minimize business operations uncertainty.

Within an ITC investigation there are no Rule 12 motions allowed as part of the investigation process for defenses such as “failure to state a claim.” There are Rule 56 motions for summary judgment as part of the process, however, this is after the very expensive discovery process has been completed.³⁴

As part of the discovery process, the complainants have the option to create broad discovery requests during very short time discovery periods,³⁵ often leading to enormous respondent discovery costs. The rationale by the Complainants may be based on taking individual clauses from individual claims from patents being asserted and asking for all documentation (engineering, marketing, and sales) related to any products that contained these features. This is a way to continue to push for higher discovery burdens to encourage defendants to consider settlement.

The rule in discovery is that you are compelled to produce all the documents of relevance requested. Also, the court allows this to be defined by the plaintiff and discussed as part of the discovery process.³⁶ The ITC, by its nature as an administrative investigation, does not follow the same patent litigation or civil procedures common to civil procedures in the federal district court.³⁷

Considering there are no Rule 12(b) motions to allow respondents to argue that complainants have failed to state a claim, without *Twombly* or *Iqbal* heightened pleading requirements,³⁸ there may be a tendency for the discovery process to turn into a ‘fishing expedition’. Also, no counterclaims are allowed during an investigation,³⁹ as the investigation is not a typical trial with the intent to “bring all matters before the court” for efficient resolution of all claims.⁴⁰ Any counterclaims from respondents are removed to the district court and not heard by the ALJ.

³⁴ See *supra* note 19, at 24.

³⁵ See 19 C.F.R. §§ 210.29, 210.30, 201.14(a) (1997).

³⁶ 19 C.F.R. §§ 210.27 - 210.32 (1997).

³⁷ See 19 C.F.R. § 210 (citing specific procedural rules for ITC investigations).

³⁸ See *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007); *Ashcroft v. Iqbal*, 556 U.S. 662 (2009) (Supreme Court overruled *Conley* and heightened pleading requirements to a plausibility standard).

³⁹ See 19 C.F.R. 210.14(e) (1997).

⁴⁰ FED. R. CIV. P. 18, 20.

Further, the complainant may request dismissal at any point in the process,⁴¹ all the way up until final opinion is issued by the ALJ, without any adjudication on the merits. Therefore, if the investigation is frivolous, unwarranted, or unsupported, there are no ramifications for the complainant. There are no awards for respondent legal fees for any voluntary dismissal of claims by the complainant.⁴²

Additionally, even if the respondent feels that they have been named frivolously or errantly, there is no remedy for the ALJ to hear the merits of the case prior to the expense of discovery and expert reports. If the respondent does not have enough capital to participate in the investigation, which takes place at an expedited pace, then default judgement against the respondent may occur. Additionally, inadequate participation in this highly time intensive and expensive exercise may also result in sanctions from the ALJ. Any of these actions will cost the respondent fines or a ban for importation of the respondent's product into the United States.

For these reasons there is a significant imbalance of power between the complainant and respondent within an ITC, section 337, investigation. The investigation, by its nature, is extremely pro-plaintiff (pro-complainant), with very few adverse consequences for the complainant. The complainant is not subject to counterclaims, paying respondent's legal fees, and even if the ALJ finds the patent's claims to be invalid, this finding does not have the force of law to invalidate the patent as it would have in federal circuit court.⁴³

III. HOW IS AN ITC SECTION 337 INVESTIGATION DIFFERENT THAN TRADITIONAL DISTRICT COURT LITIGATION?

The United States International Trade Commission (ITC) has as one of its missions to protect the domestic industry of the United States from infringement of intellectual property owned by manufactures in the U.S. from importation of infringing product. This may take the form of

⁴¹ See 19 C.F.R. 210.21(a) (1997). *E.g.*, Marcia E. Miller, Chairman, *Asian Style Kamaboko Fish Cakes*, 2998 UNITED STATES INT'L TRADE COMM'N 1, 14 (1996), <https://www.usitc.gov/publications/337/pub2998.pdf> (initial determination granted complainant's motion to terminate the investigation with respect to certain respondents).

⁴² See Mary Joan McNamara, *In the Matter of Certain Beverage Dispensing Systems and Components Thereof*, UNITED STATES INT'L TRADE COMM'N, (2019), https://www.usitc.gov/press_room/documents/337_1130_id.pdf.

⁴³ See, *e.g.*, *Tex. Instruments Inc. v. Cypress Semiconductor Corp.*, 90 F.3d 1558 (Fed. Cir. 1996) (finding that ITC determination of infringement/invalidity does not have preclusive effect in later court proceedings).

infringement of granted US Patents or trademarks. Section 337, of the ITC, or 19 USC 1337, defines these responsibilities.⁴⁴

The intent for the ITC, section 337, action is to be an expedited investigation into any complaint by a domestic manufacturer,⁴⁵ with swift judgment to be able to provide an expedited remedy.⁴⁶ The sole remedy of the 337 investigation is to order Customs and Border Protection to block U.S. imports of all implicated products. Both direct and contributory infringement may be argued as part of the complaint. This leads to very broad potential assertions of infringement.

The investigation is very quick, often called a “rocket docket”⁴⁷, taking only 12-18 months to complete an investigation and block import after filing of a complaint.⁴⁸ Patent litigation in federal district court follows the Federal Rules of Civil Procedure that were adopted by order of the Supreme Court.⁴⁹ However, an ITC investigation (section 337 proceeding) by the Commission follows rules prescribed by 19 CFR § 210. Specifically, the rules are constructed to be able to conduct proceedings “expeditiously” with all parties, including the administrative law judge (ALJ), required “to make every effort . . . to avoid delay.”⁵⁰

At a political construct level, as the U.S. trade agency, this structure makes common sense as a way for the U.S. to enforce trade, U.S. intellectual property rights, and protect U.S. manufacturers from foreign manufacturers unfairly benefiting from U.S. technology.

However, this global and political view of the world is very reminiscent of the 19th and 20th century during the U.S. industrial expansion. However, in the 21st century, almost all large U.S. manufacturing companies have global supply chains. For example, any of the large electronics or automotive manufacturers have supply of parts and components that flow in and out of the US, such as Apple and Samsung. Additionally, with the effort for re-establishment of a NAFTA agreement with Mexico and Canada, the government is expecting there to be larger volumes of trade, which includes manufactured goods and components flowing across the borders.⁵¹

⁴⁴ 19 U.S.C. § 1337.

⁴⁵ See 19 U.S.C. § 1337(a)(2).

⁴⁶ See 19 U.S.C. 1337(b)(1) (1994).

⁴⁷ See USITC, *Section 337 Mediation Program Ninth Update*, 4837 COMMISSIONS PUBLIC LIBRARY 1, 5 (2018), https://www.usitc.gov/intellectual_property/documents/pub4837_mediation_brochure_10_18_2018.pdf.

⁴⁸ *Id.*

⁴⁹ FED. R. CIV. P. 1.

⁵⁰ 19 C.F.R. § 210.2.

⁵¹ See Joshua Furman, *Reports of Section 337's Death Have Been Greatly Exaggerated: The ITC's Importance in an Evolving Patent Enforcement Environment*, 30 BERKELEY TECH. L.J. 489, 497 (2015).

This means that there are very few domestic-only manufacturing firms that make all their mechanical and electrical components, and write all their software, within the borders of the United States. In this sense, smaller firms or Non-Practicing Entities (NPE's) that are simply licensing businesses as domestic entities are insulated from ITC investigation remedies, but larger US manufacturing firms are likely targets. Large multi-national corporations, with a large US market presence and revenues, are likely targets for an ITC proceeding simply due to the potential licensing revenues required to offset the significant litigation costs of bringing the action.⁵² Therefore, there may be more U.S. manufacturing and domestic industry jobs represented by the respondents than are often being “protected” for the complainant.⁵³

Given that NPE's may conceivably wish to use the ITC, section 337 pro-plaintiff investigation to be able to more successfully press for licensing fees, the ITC does have rules attempting to preclude NPE's from using the ITC investigation process instead of litigating in the federal circuit. To successfully file a complaint with the ITC, section 337, the complainant needs to show that they are a practicing entity, which is called the “domestic industry” prong.⁵⁴ This means the complainant needs to show that they are either manufacturing product that makes use of the intellectual property of at least one claim of the asserted patents or are licensing the patents to other manufacturers who are using at least one claim of the asserted patent for manufacturing products within the US.

It represents very unequal power, and may be controversial, for an investigation to be instituted when the only domestic industry represented is related to licensing and not protection of domestic manufacturing.⁵⁵ For example, a recently instituted investigation,⁵⁶ on behalf of an Irish-owned licensing entity, named several large consumer electronics sellers within the US market, including Apple, Amazon, Microsoft, and Motorola, all corporations headquartered within the United States. The controversy here is that due to global interdependency, and lack of actual domestic industry by the complainant, “an exclusion order would not remedy any harm caused to

⁵² David W. Hill, *IP Litigation in USA –Costs, Duration and Enforceability*, WORLD INTELLECTUAL PROPERTY ORGANIZATION, <https://www.wipo.int/export/sites/www/amc/en/docs/hillitigation11102012.pdf>.

⁵³ See Richard Allison, *Section 337 Proceedings Before The International Trade Commission: Antiquated Legislative Compromise Or Model Forum For Patent Dispute Resolution?*, 5 N.Y.U. J.L. & BUS. 873, 879.

⁵⁴ See 19 U.S.C. § 1337(a)(2).

⁵⁵ See *supra* note 26.

⁵⁶ *In re Certain Capacitive Touch-Controlled Mobile Devices, Computers, and Components Thereof*, ITC Inv. No. 337-TA-1193 (Int'l Trade Feb. 14, 2020).

[the complainant's domestic market] because their goal" in using the ITC section 337 investigation process "is to secure royalties from the alleged infringers' U.S. sales."⁵⁷

While ITC investigations require discovery, expert reports, witnesses, and trial, the remedy is very specific. The award is simply an exclusion order to Customs and Border Protection to ban importation of the infringing product until the manufacturer can prove that the design no longer infringes or has taken a license from the complainant to the intellectual property. No money damages are awarded to the complainant in an ITC action.

However, once a product has been blocked from import, the respondent has very little choice other than to negotiate for a license, with very unequal power, to be able to continue revenues for the product.⁵⁸ One might suggest an alternate to taking a license would be simply to manufacture within the US. However, the respondent has already been found to have infringed by the ALJ, so any further proceedings in district court will also be influenced by the same ruling. The Supreme Court has held similar concerns regarding entities that "use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees."⁵⁹ Further, regarding negotiation for settlement agreements after the ITC grants "an injunction, and the potentially serious sanctions arising from its violation" complainants may use the injunction "as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent."⁶⁰

Parallel Litigation Proceedings Related to ITC Section 337 Investigation and Timelines

As previously discussed, the ITC, section 337, investigations are heavily pro-plaintiff in outcome.⁶¹ For example, based on data from the ITC section 337 website as previously shown, 77% of all investigations that have completed trial are found in favor of the complainant. This is much more favorable than approximately the 30% found in favor of the plaintiff within the federal circuit.

⁵⁷ See Watson, *supra* note 26.

⁵⁸ See eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388 (2006).

⁵⁹ *Id.*

⁶⁰ *Id.*

⁶¹ See Robert W. Hahn, *Assessing Bias in Patent Infringement Cases: A Review Of International Trade Commission Decisions*, 21 HARV. J. LAW & TECH. 457 (2008).

As the respondent, there are no procedures within an ITC investigation to file a counterclaim.⁶² All counterclaims are removed to district court for litigation and separated from consideration by the ALJ.⁶³

Filing an ITC complaint does not preclude filing of other district court litigation. In some cases, an ITC section 337 complaint and district court complaints may be filed concurrently.⁶⁴ Due to the expedited speed of the ITC investigation, the ITC investigations and judgement will happen much sooner than a case in district court would complete.⁶⁵ In many cases the district court will suspend the cases relating to the same disputes to await the ITC investigation finding.⁶⁶ This is very rational, considering the cost of maintaining two separate litigation efforts on the same patents, discovery, and facts. This further creates a very pro-plaintiff environment that will potentially favor the plaintiff in the district court as well. However, the findings of the ITC investigations related to patent or intellectual property invalidity are not binding for future district court cases.

ITC investigations do not follow the standard federal rules of civil procedure, instead as administrative actions they follow their own Code of Federal Regulations (“CFR”).⁶⁷ ITC investigations follow expedited timelines, often only allowing a fraction of the time normally scheduled for discovery, validity and invalidity arguments, summary motions, responses to motions, expert reports and rebuttals to expert reports as compared to patent litigation in federal district courts.⁶⁸ Often “the entire discovery phase of a Section 337 investigation is typically completed within five months.”⁶⁹

Comparing an ITC, section 337 investigation timeline (figure 2.0) to typical federal district court timelines (figure 3.0) that are at the trial judge’s discretion based on case management conferences, there are considerable differences in the amount of time scheduled for each procedural step, in some cases multiple times faster. For example, in ITC scheduling, response

⁶² See 19 U.S.C. §1337(c)(1994).

⁶³ *Id.*

⁶⁴ See *supra* note 19, at 22 (discussing that managing parallel proceedings strategies in ITC, IPR, and District Courts is quite common).

⁶⁵ *Id.*

⁶⁶ *Id.*

⁶⁷ See 19 C.F.R. § 210.

⁶⁸ See *supra* note 19.

⁶⁹ See Richard G. Allison, *Section 337 Proceedings before the International Trade Commission: Antiquated Legislative Compromise or Model Forum for Patent Dispute Resolution?*, 5 N.Y.U. J.L. & BUS. 873, 900 (2009)

time from the respondent after notification of investigation, is only 20 days, as compared to a typical allowance of 60 days (with waiver of service) in federal court.⁷⁰

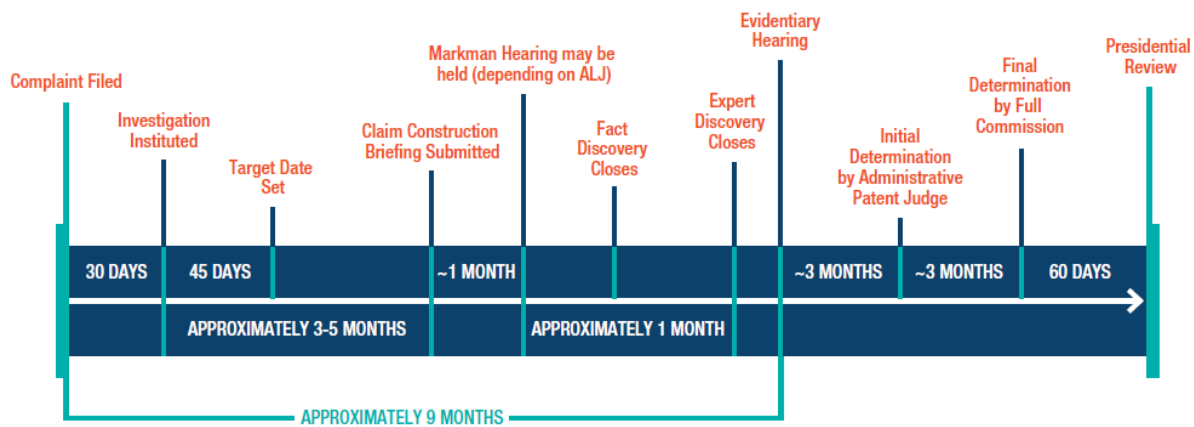


Figure 2.0, Typical ITC section 337 Investigation Timeline⁷¹

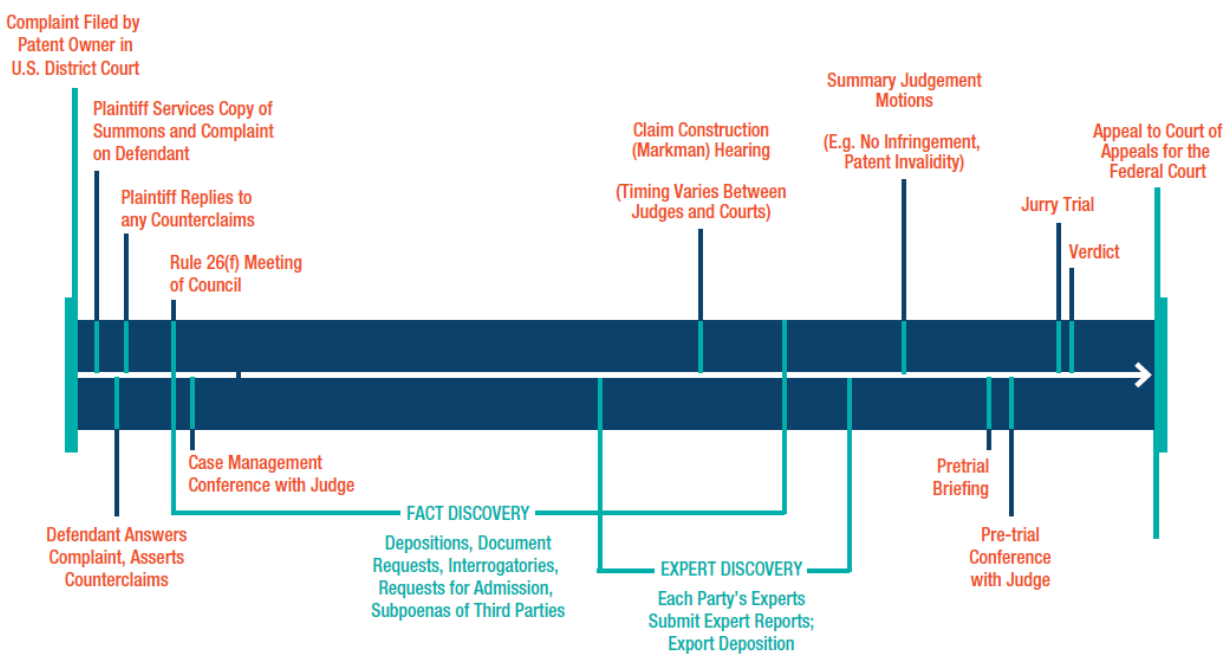


Figure 3.0, Typical District Court Timeline⁷²

⁷⁰ FRCP 4(d)(3)

⁷¹ See *supra* note 19.

⁷² *Id.*

It is also useful to point out a few other differences illustrated in the timelines. For the ITC, after the evidentiary hearing and the initial determination by the ALJ (which only takes about 12 months to complete from initial filing of the complaint), there is further time for Commission final approval of determination, with additional time (60 days) allocated for U.S. Presidential review. This is a default time period for the President to counter the findings of the ITC, at the President's discretion. Although atypical for there to be any Presidential involvement, it has happened.⁷³ The U.S. President, in 2011, delegated his authority to the U.S. Trade Representative to block an exclusion order with respect to an adverse finding against Apple products related to Samsung patents.⁷⁴

In contrast, you will notice at the end of the district court timeline (shown in figure 3.0) that there is typically an appeal filed with the Court of Appeals to review the decision of the district court,⁷⁵ which extends the case timeline even further. Therefore, timing of ITC investigations is very attractive for plaintiffs, both to drive for remedy and settlement.

IV. IV. HOW IS ITC BEING USED TO EXPLOIT PRO-PLAINTIFF LICENSING SETTLEMENT

With ITC section 337 investigations considered as a fast-paced litigation process, low risk of counterclaims prior to trial, the procedure is generally “pro-plaintiff” in outcome. This creates concerns regarding the balance of power between complainant and respondent in comparison to a district court litigation.

Even without the additional litigation costs of counterclaims as part of an ITC action, there are tremendous litigation costs for the respondent in an ITC investigation. Legal fees are significant, often topping one million dollars or more, just to mount a reasonable defense to an ITC complaint. With no FRCP 12(b)(6) motions available to the respondent, once an investigation

⁷³ See David W. Long, *Litigating Standard Essential Patents At The U.S. International Trade Commission*, 17 SEDONA CONF. J. 671 (2012) (referencing *In the Matter of Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Table Computers*, ITC Investigation INV. No. 337-TA-794 (Int'l Trade November 3, 2016) when, for the first time in twenty-five years, the U.S. Trade Representative invoked his rarely used discretion to disavow and nullify the ITC's exclusion order).

⁷⁴ *Id.*

⁷⁵ See *supra* note 19.

is launched there is an immediate need to invest significant capital in a defense, particularly on expedited ITC investigation schedules.

Failure to meet submission deadlines for discovery, claim construction, depositions, expert reports, invalidity claim charts, and non-infringement claim charts might all result in sanctions. Having the extremely short response deadlines in ITC investigations “drastically increase[s] the producing party's costs as they scramble to meet aggressive deadlines, and this increase could give an advantage to parties with more economic resources.”⁷⁶

The alternative to the respondent is to choose not to participate, however that would result in default judgment, effectively blocking any further importation of product into the United States of any accused product defined by the complainant.

To add insult to injury, on the eve of trial, after the majority of litigation costs have been spent, the complainant is free to drop the investigation if it becomes apparent the complainant may lose in the decision process, without any recourse or reparation for the respondent.⁷⁷

V. ROLE OF MEDIATION IN THE ITC PROCESS

Considering there is little recourse for respondents to prevail early in ITC 337 investigations, there should be a larger role for mediation between complainants and respondents prior to spending millions of dollars in litigation for trial preparation.

In a typical mediation scheduling step for non-patent litigation, the mediation is often scheduled after complaint, answer, and discovery are completed so that each side has a better understanding of the true bargaining positions of each side.⁷⁸ The rules of the ITC, section 337, investigation require a one-day mediation between the complainant and each respondent.⁷⁹ This one-day mediation is typically scheduled after the completion of discovery, depositions, claim construction, and invalidity submittals by the respondents.⁸⁰ This represents a significant portion of overall trial costs, perhaps representing 75% of the total defense costs to the respondent.

⁷⁶ See *supra* note 69

⁷⁷ See *In re Certain Beverage Dispensing Syst. & Components*, No. 337-TA-1130 (Int'l Trade August 2, 2019).

⁷⁸ See Julie Macfarlane, *Culture Change - A Tale of Two Cities and Mandatory Court-Connected Mediation*, 2002 J. DISP. RESOL. 241, 273 (2002)

⁷⁹ See USITC, *Section 337 Mediation Program Ninth Update*, 4837 COMMISSIONS PUBLIC LIBRARY 1 (2018).

⁸⁰ *Id.*

In some cases, particularly within ITC actions, mediation between global companies can be made even more difficult based on cross-cultural mediation factors.⁸¹ If the decision makers for complainant and respondent need to come together for mediation but are from different cultural backgrounds and different cultural reference points, the mediation process becomes more complex, requiring more mediation skill and perhaps more time.⁸² Although there is a required one-day mediation, the ITC section 337 investigation, in an effort to provide “swift resolution” to the dispute, the ALJ cannot change the schedule for the adjudication hearing to accommodate more than one day of mediation between parties.⁸³ The logic for this very short mediation time period is that “the preparation for mediation is minor in comparison with the preparation for the evidentiary hearing, so there is no wasted effort.”⁸⁴

A fundamental assertion of this paper is that if the scheduled time for parties to mediate was set prior to the completion of discovery, based on discussion regarding non-infringement and invalidity claim charts, there could be more saved litigation costs and less “wasted cost” from the evidentiary hearing itself. The parties could weigh relative costs of litigation compared to potential licensing royalties to determine if the case is worth continuing to the evidentiary hearing. The format for mediation is not prescribed and typically left to the experience of the mediator or standard ADR practices.⁸⁵

However, there are several best practices highlighted in this paper that have been gleaned from mediators that are experts in ITC investigation mediations. With a goal of understanding how mediation might be most successful within the framework of the ITC investigation, interviews were conducted with ITC section 337 mediators that have been endorsed by the ITC and are on the ITC’s Mediator roster.⁸⁶ The interviews were conducted based on an “appreciative inquiry

⁸¹ See John Baskai, *What's a Cross-Cultural Mediator To Do? A Low-Context Solution for a High-Context Problem*, 10 CARDOZO J. CONFLICT RESOL. 43 (2008)

⁸² *Id.*

⁸³ See “Section 337 Mediation Program, Ninth Update”, U.S. International Trade Commission, Publication Number 4837, Nov 2018.

⁸⁴ *Id.*

⁸⁵ Kevin M. Lemley, *I'll Make Him an Offer He Can't Refuse: A Proposed Model for Alternative Dispute Resolution in Intellectual Property Disputes*, 37 AKRON L. REV. 287 (2004)

⁸⁶ See “Section 337 Mediation Program, Ninth Update”, U.S. International Trade Commission, Publication Number 4837, Nov 2018.

methodology”,⁸⁷ seeking the strengths of mediation and where the start of mediation may be most successful within the ITC section 337 investigation timeline.

The interviews focused simply on three questions to generate input:

- In what way has the mandatory mediation been successful for the ITC?
- When would be the best placement or timing for the mandatory mediation required by the ITC?
- What best practices are there for patent litigation mediation to reach successful settlement?

Mediation has been successful in federal courts in reaching settlement prior to trial. Additionally, there are opportunities for mediation to lessen costs of discovery by starting mediation early in the process. “Very few cases would be able to be settled directly after a response since it is too early in the case and counsel would be able to sit in the mediation and bluff.”⁸⁸ Also, as the ITC investigation is on such a fast-track, some companies “don’t have time to focus on mediation.”⁸⁹ However, an early mediation session is useful to allow both parties to discuss what specific documents need to be produced for each side to reach a settlement value to be able to move forward on negotiation.⁹⁰ Judith Meyer suggests that Paul Lurie’s “Guided Choice” process

⁸⁷ See Appreciative Inquiry: Organization Development and the Strengths Revolution, Jacqueline M. Stavros, Lindsey N. Godwin, and David L. Cooperrider Chapter "Practicing Organization Development: 4E, eds., Rothwell, et al., published by Wiley, October 2015.

⁸⁸ Telephone interview with Judith Meyer, Principal of Commercial Dispute Solutions (Dec. 5, 2019). (Ms. Meyer is certified by the International Mediation Institute and co-chairs the Independent Standards Commission of the Institute. She is a Fellow of the Chartered Institute of Arbitrators, a member of the Academy of Court-Appointed Masters, a Distinguished Fellow of the International Academy of Mediators, and a fellow of the College of Commercial Arbitrators. She serves on the national mediation and arbitration panel of the CPR International Institute for Conflict Prevention and Resolution, the American Arbitration Association, the Singapore Mediation Centre, the U.S.-China Business Conciliation Center (CCPIT Beijing), FINRA, the EEOC, the American Health Lawyers’ Association (AHLA), the U.S. Federal Circuit Court of Appeals, the U.S. International Trade Commission, the Business and Technology Case Management Program for the State Courts of Maryland, U.S. Bankruptcy Court for the District of Delaware, and the Superior Courts of New Jersey. She serves as a Judge Pro Tem for the Commerce Court of Philadelphia, as Special Master for the Commonwealth Court of Pennsylvania, and as Referee in the Reliance Insurance liquidation. She appears in Best Lawyers in America in ADR, 2006 through 2015.)

⁸⁹ Telephone interview of Harrie Samaras, Founder of ADR Office of Harrie Samras (Apr. 5, 2020). (Ms. Samaras is a Distinguished Fellow of the International Academy of Mediators. She received her early mediation training at the Harvard Law School Program of Instruction for Lawyers and is certified by the International Mediation Institute. Ms. Samaras is also a Fellow of the College of Commercial Arbitrators and the Chartered Institute of Arbitrators. She is the editor and an author of the book, *ADR Advocacy, Strategies, and Practice for Intellectual Property Cases*, published by the Intellectual Property Law Section of the ABA. Ms. Samaras has served in an advisory capacity for various ADR institutions including CPR, AAA, and the ABA Dispute Resolution Section. She has served in leadership roles for the College of Commercial Arbitrators (Board of Directors); ABA Dispute Resolution Section (Executive Committee); and American Intellectual Property Law Association (Board of Directors).

⁹⁰ Telephone interview with Judith Meyer, Principal of Commercial Dispute Solutions (Dec. 5, 2019).

achieves early mediation and exchange of information.⁹¹ Waiting until late in the timeline of litigation such as just before trial, or evidentiary hearing, to initiate mediation may create an “irrational escalation of commitment” to the parties’ own positions,⁹² creating a wish to move forward and complete the trial.⁹³ Mediation is most effective when the parties have “invested enough to understand the case, but not so much that they don’t wish to settle before the ruling.”⁹⁴

The plaintiff and defendant’s in-house counsel “need enough information to be able to determine an acceptable settlement position.”⁹⁵ Often after pleadings, there isn’t a need for more data, but rather more business oriented information is needed to facilitate the mediation related to “things that are important to settle the case, like business options.”⁹⁶ A mediation session early in the process allows the parties to “enumerate the least information that is needed to answer the questions regarding settlement positions.”⁹⁷ The recommendation for an early mediation session may not lead to a final settlement, however it may lead to “creation of actions for gaining information critical for settlement decisions prior to the next mediation meeting. This is the best use of mediation.”⁹⁸

The ITC 337 investigation does not award damages to the complainant, instead the investigation can only lead to exclusion or cease and desist orders.⁹⁹ The mediation session within the ITC 337 process has as its goal a mediated settlement that “can include provisions, territories, technologies, and details far exceeding the scope of the complaint, without anyone needing to amend the complaint.”¹⁰⁰ Mediation is an “opportunity for the parties to explore their underlying interests and find creative settlement options” that exceed the limited outcomes available from the ITC 337 investigation.¹⁰¹

⁹¹ See Paul M. Lurie, *Guided Choice: Early Mediated Settlements and/or Customized Arbitrations*, 7 J. AM. C. CONSTR. L. 167, 169 (2013); see also, <https://gcdisputeresolution.files.wordpress.com/2015/07/paul-lurie-on-guided-choice-in-jaccl-clj-1.pdf> (last visited Dec 5 2019)

⁹² See Max H. Bazerman & Margaret A. Neale, *Negotiating Rationally* 9-15 (1992). (defining the concept of “irrational escalation of commitment,” where parties continue to fight in ways that hurt their self-interest.)

⁹³ See *supra* note 88.

⁹⁴ *Id.*

⁹⁵ *Id.*

⁹⁶ See *supra* note 89.

⁹⁷ See *supra* note 88.

⁹⁸ *Id.*

⁹⁹ “Section 337 Mediation Program, Ninth Update”, U.S. International Trade Commission, Publication Number 4837, Nov 2018. at 17.

¹⁰⁰ *Id.*

¹⁰¹ *Id.*

Ms. Harrie Samara indicates that as a mediator it is a best practice to understand the parties' business "interests in business solutions, whether there is there a global settlement possibility, and are there other issues being litigated in district court."¹⁰² A best practice is for the mediator to start pursuing avenues of business solutions "before folks get to the table."¹⁰³ The mediator should not assume the complainant just wants the respondents "out of the market," which is essentially the only remedy available from the ITC 337 investigation.¹⁰⁴ Litigation is a process and "along the way objectives of the parties may change, and that can be used advantageously in mediation."¹⁰⁵

In reflecting on successful mediation, Judith Meyer states that "mediation is a process, mediation is a discussion."¹⁰⁶ In limiting the mediation to one-day "success rates are not optimized."¹⁰⁷ Participants need time to reflect on their positions or offers, and time to "sleep on it."¹⁰⁸ To reach a successful settlement the parties "have to develop trust and a style of conversation" which often requires time.¹⁰⁹ "Working with the judge from the beginning" to coordinate mediation, "is a great way to get parties to learn how to talk to each other, they are very good at solving their own problems."¹¹⁰

In a discussion with Sandra Sellers, she indicated that even though the ITC represents mediation as a one-day process, the "one-day is a myth" and "is not a mechanism to provide for productive conversation."¹¹¹ For successful mediation pre-work is required. Generally, there are

¹⁰² See *supra* note 89

¹⁰³ *Id.*

¹⁰⁴ *Id.*

¹⁰⁵ *Id.*

¹⁰⁶ See *supra* note 88

¹⁰⁷ See *supra* note 88

¹⁰⁸ *Id.*

¹⁰⁹ *Id.*

¹¹⁰ *Id.*

¹¹¹ Telephone interview with Sandra Sellers, Professor of Mediation, Georgetown Univ. Law Ctr. (Dec. 5, 2019) (Ms. Sellers has mediated over a dozen ITC investigations and is an Adjunct Professor in Mediation at Georgetown University Law Center since 2003 and is a Professional Lecturer in Law and Adjunct Professor at George Washington University Law School since 2010. Ms. Sellers served as President of the ITC Trial Lawyers Association in 1993. She was a member of the Board of Directors of the International Trademark Association (INTA), and Chair of the ADR Committee. She was Chair of the International Institute for Conflict Prevention and Resolution (CPR)'s Committee on Information Technology Conflict Management, which developed more effective ways to avoid and resolve conflict in IT projects. She was a member of the American Bar Association (ABA)'s E-Commerce and ADR Task Force and also of the ABA's Y2K ADR Task Force. She is the author of *Avoiding and Resolving Information Technology Disputes*, (author of chapters 1, 4, 6), International Institute for Conflict Prevention and Resolution (CPR) (2005); "Practice At The International Trade Commission," *Intellectual Property Counseling and Litigation*, Matthew Bender & Co., (multi-volume treatise published 1988-94); various articles on mediation, software licensing, intellectual property litigation. Ms. Sellers is a certified mediator for the International Mediation Institute; is on the panel of neutrals for the World Intellectual Property Organization (WIPO) Arbitration

multiple respondents within an investigation, often five to seven.¹¹² The number of parties requires significant scheduling complexity.¹¹³ There generally is no single spokesperson for all respondents regarding mediation, and each respondent has different business interests related to settlement.¹¹⁴ While litigating against the complainant, the respondents may be united to show patent non-infringement or invalidity positions but “their settlement goals may all be unique even within the same industry regarding terms of settlement.”¹¹⁵ “Each respondent has different interests.”¹¹⁶

In order to understand each respondent’s interests, Sandra Sellers has several steps. First, she schedules a call with all parties’ principals and counsels to setup logistics of the mediation.¹¹⁷ Second, she determines who are the primary respondents that need to settle first for the other respondents to be comfortable with settlement.¹¹⁸ The primary respondents are the focus of the first mediation session, or will be allocated majority of the time, although the scheduling order from the ALJ requires all of the parties to have mediation.¹¹⁹ Scheduling needs to accommodate all parties, but it is useful to divide the mediation across multiple days to accommodate parties in a logical order.¹²⁰ Then, each party is requested to submit two mediation statements: (1) a brief to be shared with the opposing side that relate to what the main issues are before the commission, and (2) a confidential statement to the mediator (not to be shared with the opposing side) relating to settlement goals of the party.¹²¹ Then, in separate calls with each party, the mediator seeks to understand the parties expectations of the mediator.¹²² “The mediator is typically not an expert in each sides’ technology.”¹²³ On the first phone call, “there needs to be agreement if the mediation is business focused or technology focused.” Most of the time parties “seek to have a business focus for mediation to reach a business decision.”¹²⁴

& Mediation Center; the International Trademark Association; the International Institute for Conflict Prevention and Resolution (CPR).)

¹¹² *Id.*

¹¹³ *Id.*

¹¹⁴ *Id.*

¹¹⁵ *Id.*

¹¹⁶ *Id.*

¹¹⁷ *Id.*

¹¹⁸ *Id.*

¹¹⁹ *Id.*

¹²⁰ *Id.*

¹²¹ *Id.*

¹²² *Id.*

¹²³ *Id.*

¹²⁴ *Id.*

The ALJ will give a deadline for completion of the one-day mediation session as part of the scheduling conference, however mediation “needs to be done well before the deadline and doesn’t have to be performed only on that day.”¹²⁵ The mandatory nature from the ALJ’s scheduling order, “may affect the parties good faith approach to mediation” as it “affects their attitude of just trying to satisfy the judges requirement to ‘check the box’ for mediation.”¹²⁶ Frequently there are “last minute” mediation requests, that drive short deadlines, that do not allow for the desired “relationship building between principals” that typically leads to successful settlement.¹²⁷ “Good mediators are able to understand parties’ expectations of settlement ranges.”¹²⁸ Based on her ITC experiences, Ms. Sellers indicated that parties “have to have a demand that is justifiable; the mediator needs to be able to explain a rational goal to the opposing side, which equates to a license agreement and/or a cash payment.”¹²⁹

Another interesting difference related to ITC investigation mediation, is the impact of concurrent litigation activities such as Inter-Parte Reviews (IPR) filed at the U.S. Patent and Trademark Office (USPTO) Patent Trial and Appeal Board (PTAB).¹³⁰ Parties may be able to review the PTAB’s initial decision document to “move forward” with an IPR investigation prior to mediation.¹³¹ This decision document will contain an initial detailed analysis by the USPTO related to validity of the patent, based on ex-parte input from one of the parties.¹³² The USPTO IPR process can be used to inform the settlement decisions of the parties regarding how likely the patent claims are to survive the IPR review.¹³³ This does “color” the decision process within mediation for the ITC investigation, making particular parties either more or less likely to seek settlement.¹³⁴

When mediation is scheduled “so late in the process, the parties are already entrenched, and have already put in their blood sweat and tears, it is very difficult to get them change their

¹²⁵ *Id.*

¹²⁶ *Id.*

¹²⁷ *Id.*

¹²⁸ *Id.*

¹²⁹ *Id.*

¹³⁰ *Id.*

¹³¹ *Id.*

¹³² *Id.*

¹³³ *Id.* (IPR’s are typically filed by a respondent in an ITC investigation in an attempt to invalidate the complainant’s asserted patent).

¹³⁴ *Id.*

thought process to think towards settlement.”¹³⁵ Minimum discovery would need to be completed for the first mediation, although “this could be a limited effort.”¹³⁶ A suggestion would be to setup a pre-mediation meeting early in the investigation “to allow principals to meet in an initial discussion at the beginning of discovery,” for discussion on “business and economics” of the businesses.¹³⁷ This “sets the interaction” and creates a “common of relationship, for later mediation discussions that helps create earlier settlement without ‘vilifying the other side’ through the litigation.”¹³⁸ This allows for early discussion related to damages that “allows for more effective discussion of damages prior to spending significant litigation costs.”¹³⁹ Principals can “collaborate on damages models that make sense,” and take time to figure out data that might be needed to reach a decision.¹⁴⁰

Often, the goal of the complainant may, in fact, be a licensing settlement rather than an exclusion order. Use of the ITC as a “rocket docket” has been used to create strike cases against defendants to reach faster licensing settlement.¹⁴¹ Even if the complainant is seeking to force settlement by pressing ITC pro-plaintiff litigation, a pre-discovery mediation session may provide earlier knowledge of information needed for an early assessment of costs compared to potential licensing benefit for respondents. In this way both parties benefit from earlier mediation in the process.

VI. IMPROVEMENTS TO ITC MEDIATION PROCESS THAT MAY YIELD MORE EFFICIENT OUTCOMES

Based on the differences outlined above between the ITC, section 337, investigation processes and typical patent claim litigation in federal district court, there are several potential improvements that this paper asserts are needed.

First, an improvement would be requiring that the one-day mediation be moved to an earlier point in the investigation schedule. Specifically, it may be feasible to initiate mediation

¹³⁵ *Id.*

¹³⁶ *Id.*

¹³⁷ *Id.*

¹³⁸ *Id.*

¹³⁹ *Id.*

¹⁴⁰ *Id.*

¹⁴¹ Donald J. Suda, *Complainant Fraud on the International Trade Commission: Is There A Standard?* 35 CATH. U.L. REV. 545 (1986).

immediately after the complainant has issued the Complaint and the respondent has submitted their Response.¹⁴² The requirements of a Complaint requesting initiation of an ITC investigation are different from district court “notice pleading” essentially requiring fact pleading.¹⁴³ This level of detail in both Complaint and Response allows for a more rational assessment of ITC litigation costs, assessment of likelihood to find infringement, and comparison to true royalty value of the patent claims.

However, if mediation is conducted prior to the “*Markman*” (patent claim construction) hearing, either side may not be as “confident in their case.”¹⁴⁴ The uncertainty in how the ALJ may rule is highest right after filing of the initial briefs when the investigation outcome may be most uncertain.¹⁴⁵ After the *Markman* hearing, there may be less uncertainty in the outcome, and parties may be more eager to mitigate their risk as to the ALJ’s decision.¹⁴⁶ The *Markman* hearing, within patent litigation, is the judge’s ruling on claim interpretation.¹⁴⁷ Harrie Samaras points out that “sometimes it takes a decision from the ALJ” to create incentive for the parties “to come to the table.”¹⁴⁸ The *Markman* hearing is held prior to the conclusion of the discovery process, typically within 5 to 6 months of the start of the ITC investigation.¹⁴⁹ This is earlier than the timing of the single day mediation required as part of the ITC section 337 process, as the ITC single day mediation is scheduled after requests for summary judgement have been filed, but prior to the Evidentiary hearing.¹⁵⁰

The Importance of the *Markman* Hearing within ITC section 337 Investigations, as it Relates to Concurrent and Future Parallel Litigation

¹⁴² See 19 C.F.R. § 210.13 (2013).

¹⁴³ See *supra* note 89.

¹⁴⁴ *Id.*

¹⁴⁵ *Id.*

¹⁴⁶ *Id.*

¹⁴⁷ See *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996) (interpretation of patent claim language is a matter of law, that is resolved by the judge).

¹⁴⁸ See *supra* note 89

¹⁴⁹ See *supra* note 19.

¹⁵⁰ *Id.*

The *Markman* (claim construction) hearing is the “linchpin of . . . many disputes in patent law.”¹⁵¹ A patent’s claims “define with words the limits of the inventor’s exclusive rights, just as physical boundaries may define the limits of real property rights.”¹⁵² The *Markman* hearing interprets the words used in the claims to define their technical scope, which in turn allows the court to “define the boundaries of the patent by interpreting its claims.”¹⁵³

Once these claim term definitions are determined as the foundation of litigation, then the patent claims may be analyzed to determine whether the patent has been infringed and “whether it ought to have been granted in the first place.”¹⁵⁴ As claim construction is determined to be a matter of law, decided by a judge alone, the standard of review for the appellate court (Federal Circuit) is *de novo*, which allows for the Federal Circuit to review these critical definition decisions for consistency in interpretation.¹⁵⁵

However, another issue regarding patent claim language has historically been that claim construction interpretation standards have not been the same in all patent litigation venues. After 2005, federal district courts have applied the *Phillips* standard¹⁵⁶ within intellectual property patent litigation, for interpretation of the wording of patent claims as to how the terms should be construed for meaning as “a person of ordinary skill in the art” would define the terms. This is counter to historical use of the individual patent’s own “specification” section that an inventor uses to describe the invention, scope of the invention, and patentable features to restrict the specific meaning of terms.¹⁵⁷ The *Phillips* standard does not only rely on the interpretation of context from the specification of the patent to construe the interpretation of the patent’s claims, but rather places more weight on interpretation of terms by a skilled person from within the same industry or technical background of the invention.¹⁵⁸ Interestingly, prior to 2018, the US Patent Office used a “broadest reasonable interpretation” (BRI) standard for Inter-Partes Review (IPR) to construe

¹⁵¹ Jeffery A. Lefstin, *The Measure of the Doubt: Dissent, Indeterminacy, and Interpretation at the Federal Circuit*, 58 HASTINGS L.J. 1025 (2007).

¹⁵² *Id.* at 1025.

¹⁵³ *Id.* at 1025.

¹⁵⁴ *Id.*

¹⁵⁵ See *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1454 (Fed. Cir. 1998).

¹⁵⁶ See *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005).

¹⁵⁷ *Id.*

¹⁵⁸ *Id.*

claims to determine validity over prior art, which is different than the *Phillips* standard.¹⁵⁹ While most patent owners would like a very broad interpretation of their patent claims regarding infringement during litigation within a federal district court, the opposite is true when defending the validity of their patent claims as part of an IPR proceeding. Broader claim interpretations allow for a larger set of potential prior art (or patents) to be raised to the US Patent Office to invalidate the novelty of the patent's claims during the IPR proceeding.¹⁶⁰ The BRI standard that was used in IPR proceedings made "it much easier for the patent challenger to prevail" to invalidate patent claims in proceedings at the PTO than when in district court litigation.¹⁶¹

The BRI standard is different for claim construction interpretation than the district court *Phillips* standard.¹⁶² From a strategy standpoint, this encouraged any defendant in patent litigation to immediately file an IPR with the PTO against the patent being asserted against them in district court (or in an ITC investigation). As an illustration, 86.8% of IPRs filed with the Patent Trials and Appeals Board (PTAB) of the USPTO in 2018 were for patents that were in active litigation.¹⁶³ In 2018, the USPTO updated the Final Rules Package on Inter Partes Review (IPR) Claim Construction to adopt the *Phillips* standard for claim construction, moving away from broadest reasonable interpretation (BRI), bringing the IPR proceeding into alignment with both the ITC and district court standards of claim construction¹⁶⁴. Further, claim construction definitions from an ITC proceeding or a federal court, that were from cases prior to an IPR litigation, "will be considered" by the IPR proceeding to define claim terms.¹⁶⁵ The goal of the US Patent and Trademark office in adopting the *Phillips* standard is to "lead to greater consistency with the federal courts and the ITC, where such consistency will lead to greater certainty as to the scope of issued patent claims, but it will also help achieve the goal of increasing judicial efficiency."¹⁶⁶

While this change may arguably decrease the amount of claims invalidated in IPR proceedings, this recent rule update unifies the standards between ITC, IPR, and district court

¹⁵⁹ See Gregory Dolin, *Dubious Patent Reform*, 56 B.C. L. REV. 881, 916 (2015) (explaining that the broadest reasonable construction standard "makes it much easier for the patent challenger to prevail" in proceedings at the PTO than in district court litigation).

¹⁶⁰ *Id.*

¹⁶¹ *Id.*

¹⁶² *Id.*

¹⁶³ Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings Before the Patent Trial and Appeal Board, 83 FR 51340, 51342 (Oct. 11, 2018) (to be codified at 37 C.F.R. 42).

¹⁶⁴ *Id.*

¹⁶⁵ *Id.*

¹⁶⁶ *Id.* at 51344.

claim construction, giving more weight to the ITC 337 investigation *Markman* hearing's ability to shape future litigation scope and infringement risks. As shown previously, an ITC section 337 investigation can be used as an intellectual property strike case, as the first and fastest case to be filed when employing a larger intellectual property litigation strategy.¹⁶⁷ Therefore, the initial *Markman* hearing is very important from a strategic standpoint as an early ruling, that sets precedent for claim interpretation within future litigation, such as in IPR and district court litigation.

Additional Process Improvements

Second, if early mediation is perceived to be too onerous by the parties, perhaps an early scheduling requirement for mediation might only be required for respondents with domestic industry jobs, where disruption or exclusion of imports would materially affect U.S. workers. This would require establishing a domestic industry assessment for respondents, like the assessment that is already established for complainants.

Third, another useful approach, that is more policy related than IP related, would be to weigh domestic industry "prong" content of both plaintiff and respondent prior to agreement to institute an investigation by the ITC. For example, if the respondent employs 2000 domestic workers related to the business that the allegedly infringing imported product (or imported component) supports in domestic manufacturing and sales, but the complainant only has 20 workers engaged in using the same technology, then it may be more reasonable to allow a respondent to shift venue to federal district court to allow the district court to ascertain remedy and damages using the more standard litigation in federal district court for domestic plaintiffs and defendants. This would promote judicial efficiency and allow for more significant mediation opportunities.

VII. CONCLUSION

Due to pro-plaintiff outcomes the choice of initiating an ITC action may be the "litigation of choice" for plaintiffs as compared to actions in the federal district court, although requiring

¹⁶⁷ See *supra* note 19.

relatively high costs in a compressed time period. If an investigation is granted, defendants (respondents) have no other recourse but to immediately enter into a settlement or participate in fast-paced litigation, at very high cost.

The ITC adopted the mandatory one-day mediation as an effort to reduce litigation caseload on the commission.¹⁶⁸ However, the typical timing scheduled for the one-day mediation is after most litigation costs have been spent in preparation for the evidentiary hearing by both complainants (plaintiffs) and respondents (defendants). Therefore, an earlier date for the mediation would be more effective in both limiting caseload on the commission and allowing corporations to weigh the ITC litigation costs compared to early settlement options.

The suggested timing of a mandatory one-day mediation session should be as early as right after the respondents file a response or alternatively immediately after the *Markman* (claim construction) hearing. At this time both parties will have established their relative infringement and non-infringement positions with a reasonable ability for both sides to estimate damages or reasonable royalties as compared to ongoing litigation costs. This also represents an ideal time to use mediation to explore global settlement to eliminate parallel patent litigation proceedings in PTAB and federal district courts.

¹⁶⁸ See USITC, *Section 337 Mediation Program Ninth Update*, 4837 COMMISSIONS PUBLIC LIBRARY 1, 5 (2018).