Recent Decisions of the Court of Appeals of the Federal Circuit on the Economic Prong of the Domestic Industry Requirement in ITC Proceedings under 19 USC 1337

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Introduction

The International Trade Commission is a federal agency whose responsibilities include investigating and where appropriate barring the import of goods resulting from a variety of unfair trade practices. It is headed by a bipartisan six-membered commission which takes the final decision on actions to be taken following an investigative hearing before an administrative law judge.

One of the unfair practices that it can investigate is importation into the United States of articles that infringe U.S. patents.

Recent decisions of the Federal Circuit Court may have made it easier for the owner of a U.S. patent to obtain orders from the International Trade Commission (ITC) barring imports of articles that infringe a U.S. patent or were made by a process covered by a U.S. patent into the United States.

19 USC 1337 *inter alia* gives the International Trade Commission (ITC) authority to exclude imports to the United States of any articles that infringe a valid and enforceable United States patent or are made, produced, processed, or mined under, or by means of, a process covered by the claims of a valid and enforceable United States patent if an industry exists in the United States, relating to the articles protected by the patent or is in the process of being established.

U.S.C. § 1337(a)(3)(A)–(C) provides:

"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, ... concerned—

(A) significant investment in plant and equipment;

(B) significant employment of labor or capital; or

(C) substantial investment in its exploitation, including engineering, research an development, or licensing.

Only one of these needs to be met.

The ITC views the "industry requirement" as having a "technical prong" and an "economic prong".

The "technical prong" requires "the complainant to show that its domestic industry products are "protected by the patent" at issue.

The "economic prong" requires compliance with 19 U.S.C. § 1337(a)(3)(A)–(C).

The recent decisions noted above have focused on the requirements of the "economic prong" of the domestic industry requirement.

Recent Case Law

In **Roku Inc. v. ITC**[1], Roku appealed against a determination by the ITC that the complainant satisfied the economic prong of the domestic injury requirement. The patent related to a device to provide compatability between devices using different communications protocols. Roku imported TV products that were found to infringe. It argued that the patent owner had not invested in such TV products and so did not meet the economic prong of the injury requirement. The Federal Circuit noted that 19 USC 1337(a)(3)(C)

> does not require expenditures in whole products themselves, but rather, "sufficiently substantial investment in the exploitation of the intellectual property." *InterDigital Commc'ns, LLC v. ITC*, 707 F.3d 1295, 1303–04 (Fed. Cir. 2013). In other words, a complainant can satisfy the economic prong of the domestic industry requirement based on expenditures related to a subset of a product, if the patent(s) at issue only involve that subset.

The complainant had done this and the ITC's determination was affirmed.

In **Zircon Corp. v. ITC**[1] the Federal Circuit considered the question of whether the "substantial investment" requirement of 19 USC 1337(a)(3)(C) could be met by showing cumulative expenditure on a group of products, not all of which were covered by the asserted patents or whether an allocation of such expenditures to the asserted patents was required. The court found

> to satisfy the domestic industry requirement based on research and development activities under section 337(a)(3)(C), the complainant must show that those activities "pertain to products that are covered by the patent that is being asserted." *Interdigital Communications, LLC v. International Trade Commission* 707 F.3d 1295, 1297–98 (Fed.

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[1]90 F.4th 1367 (Case 2022-1386 Fed. Cir. January 19, 2024).

[1]Case 2022-1649 (Fed. Cir. May 8, 2024).

> Cir. 2013); see also *Hazing*, 926 F.3d at 1361(explaining that the activities encompassed by section 337(a)(3) "must pertain to products covered by the asserted patent") (citation omitted); *Motorola Mobility, LLC v. Int'l Trade Comm'n*, 737 F.3d 1345, 1351 (Fed. Cir. 2013) ("The investments or employment must only be 'with respect to the articles protected by the patent'"). ... In cases in which all the domestic industry products practice all the asserted patents, it follows from the language of section 337 and our case law that the complainant could satisfy the economic prong as to all asserted patents based on the entire product group. But in cases in which the complainant's products or groups of products each practice different patents, the complainant would need to establish separate domestic industries for each of those different groups of products. See *Certain Audio Digital-to Analog Converters & Prods. Containing Same*, Inv. No. 337-TA-499, Initial Determination, 2004 WL 3121325, at *61 (Nov. 15, 2004)

Since the complainant had failed to show an appropriate break down of its expenditures, the ITC had been correct in its determination that no violation of 19 USC 1337 had been proved.

In **Wuhan Healthgen Biotechnology Corp. v. ITC**[2] the Federal Circuit considered the question of whether the magnitude of the patent owner's investment was a relevant factor in determining whether the economic prong had been met noted that the legislative history indicated that Congress had indicated that "smaller businesses should not be denied the right to seek relief merely because they may have made smaller financial investments than large companies. The court concluded

> In *Lelo*, we recognized the comparison of domestic investments to total (i.e., domestic plus foreign) investments as a valid quantitative analysis for assessing the significance of investments. ... We also recognized the value added by domestic operations as a quantitative factor in the assessment.... Small market segments can still be significant and substantial enough to satisfy the domestic industry requirement. A finding of domestic industry cannot hinge on a threshold dollar value or require a rigid formula; rather, the analysis requires a holistic review of all relevant considerations that is very context dependent. ... Though the dollar amounts of Ventria's Optibumin (one of the products covered by the patents that was infringed by the imports) investments are small, the Commission found all of the investments are domestic, all market activities occur within the United States, and the high investment-to-revenue ratios indicate this

[2]Case 2023-1389 (Fed. Cir. February 7, 2025).

> is a valuable market. Under these circumstances, there is substantial evidence for the Commission's finding that the domestic industry requirement is satisfied.

In **Lashify Inc. v. International Trade Commission**[1] the Federal Circuit reversed a decision of the ITC that had held that the complainant had failed to satisfy the economic prong of the domestic injury requirement. Lashify owned patents for eye lash extensions (or "lash fusions") consisting of clusters of artificial hairs arrayed along a base that can be applied under the user's natural lashes. It had these lash extensions manufactured abroad. In a majority decision, the ITC had found that this did not satisfy the economic prong requirement. In reaching this conclusion the majority of the commissioners reasoned that "it is well settled that sales and marketing activities alone cannot satisfy the domestic industry requirement." The majority of commissioners drew the same conclusion about expenses related to warehousing, quality control, and distribution (without regard to their magnitude), explaining that those expenses are akin to those incurred by mere importers

The Federal Circuit held this to have been incorrect. It first noted that following the Supreme Court's decision in **Loper Bright Enterprises v. Raimondo** abrogating the Chevron Doctrine it was no longer required to give any deference to an agency's interpretation of a statute and so could exercise its independent judgment as to the meaning of the relevant statutory provisions. It went on:

> The statutory language is the starting point for analysis and typically controls the outcome. ... The provision straightforwardly states that a domestic industry "shall be considered to exist if there is in the United States, with respect to the articles protected by the patent . . . concerned, . . . significant employment of labor or capital." 19 U.S.C. § 1337(a)(3)(B). That language declares "significant employment of labor or capital" (if it is with respect to patented articles, as is not disputed here) to be sufficient to satisfy the economic prong of the domestic-industry requirement. The provision covers significant use of "labor" and "capital" without any limitation on the use within an enterprise to which those items are put, i.e., the enterprise function they serve. In particular, there is no carve out of employment of labor or capital for sales, marketing, warehousing, quality control, or distribution. Nor is there a suggestion that such uses, to count, must be accompanied by significant employment for other functions, such as manufacturing. The Commission's holdings attribute limitations to clause (B) not found there.
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> section 337(a)(3)(B) allows a complainant to satisfy the economic prong of the domestic industry requirement by showing employment of a large enough stock of accumulated

[1] Case 2023-1245 (Fed. Cir. March 5, 2025).

> goods or of a significant amount of human activity for producing goods or providing the services in demand in an economy. There is no requirement that a "stock of accumulated goods" be manufactured domestically. There is no exclusion from labor when the human activity employed is for sales, marketing, warehousing, quality control, or distribution, which are common aspects of providing goods or services. "Warehousing" on its face involves holding "a stock of accumulated goods"; and there is no reason to exclude the associated labor costs or those relating to sales, marketing, quality control, and distribution from "human activity that . . . provides the services in demand in an economy" ... Efforts to sell and market products to customers also are natural aspects of "providing the services in demand": Such efforts spread knowledge of the availability of, and means of using, goods or services offered.

The court noted that the majority of commissioners of the the ITC had justified its interpretation by reference to the legislative history of the relevant provision. But this could not change the clear wording of the statute itself, and even if it could have done, the majority of the ITC had misread that history.

Conclusion

These decisions have removed a number of doubts as to when the ITC can issue an exclusion order to prevent importations of patent-infringing products and in the case of the **Lashify** case have reversed conventional wisdom as to what is required to meet the economic prong of the domestic industry requirement