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# When ITC Domestic Industry Is 'Being Established'

The domestic industry requirement at the U.S. International Trade Commission sparks many a debate among the legal community. Is the requirement an imposing moat or a welcoming yellow brick road to relief?

On Aug. 14, H.R. 8037, the Advancing America's Interests Act, was introduced in the U.S. House of Representatives for the purpose of amending Section 337 of the Tariff Act of 1930 with respect to requirements for domestic industries, and other purposes.<sup>1</sup> This legislation aims to "ensure the International Trade Commission (ITC) is not misused by patent licensing entities" and would update the domestic industry standard.<sup>2</sup>

If the road to meet the domestic industry requirement is narrowed through this legislation, complainants may consider alternatives for establishing a domestic industry, including seeking a domestic industry "in the process of being established."

Successfully establishing the presence of a domestic industry is paramount to any complainant achieving standing before the ITC.<sup>3</sup> While Section 337(a)(3) provides guidance for establishing a domestic industry that is alleged to exist, there is not corresponding statutory guidance for a domestic industry "in the process of being established."<sup>4</sup>

This article examines economic considerations that are relevant to an "in the process of being established" domestic industry claim, given the legislative history and evolving case law surrounding the topic.

<sup>1</sup> Advancing America's Interest Act, H.R. 8037, 116th Congress (2020) (available at: "[https://delbene.house.gov/uploadedfiles/delben\\_041\\_xml\\_-\\_for\\_introduction.pdf](https://delbene.house.gov/uploadedfiles/delben_041_xml_-_for_introduction.pdf)"); Section 337 of the Tariff Act of 1930 (19 U.S.C. 1337).

<sup>2</sup> See, <https://delbene.house.gov/news/documentsingle.aspx?DocumentID=2645>; Advancing America's Interest Act, H.R. 8037, 116th Congress (2020).

<sup>3</sup> See, Weil, Roman L., Lentz, Daniel G., Evans, Elizabeth A., *Litigation Services Handbook: The Role of the Financial Expert*, 6th Edition, Chapter 21, p. 2.

<sup>4</sup> See, 19 U.S.C. § 1337(a)(3)(A)(B)(C).

## Emergence of a Two-Part Test

The legislative history alongside ITC opinions has articulated a two-part test for a complainant who seeks to establish a domestic industry "in the process of being established."

For example, in *Certain Stringed Musical Instruments* in 2008, the commission stated that an "industry would be considered 'in the process of being established' if the patent owner 'can demonstrate that he is taking the necessary tangible steps to establish such an industry in the United States,'" (e.g., "The owner of the intellectual property right must be actively engaged in steps leading to the exploitation of the intellectual property, including application engineering, design work, or other such activities"), and the "Commission should determine whether the steps being taken indicate a significant likelihood that the industry requirement will be satisfied in the future."<sup>5</sup>

Accordingly, the two-part test requires that the complainant establish: (1) whether the necessary tangible steps are being undertaken to establish a domestic industry in the United States; and (2) whether there is a significant likelihood that the industry requirement will be satisfied in the future.<sup>6</sup>



## An Economic Framework for the Two-Part Test

Given the emergence of a two-part test, how can economic experts approach an examination of an "in the process of being established" claim?

Economic experts routinely assist complainants and respondents with domestic industry "in the process of being established" claims. One approach an economic expert may take is to consider the plans, commitments and actual expenditures made by the complainant with respect to the article that practices the asserted intellectual property as evidence.<sup>7</sup>

Under this approach, an economic expert may offer input on document requests and production of relevant plans, commitments and expenditures and provide both qualitative and quantitative analysis regarding methodologies and strategies for these claims.

<sup>5</sup> *Certain Stringed Musical Instruments and Components Thereof*, Investigation No. 337-TA-586, Commission Opinion at 16 – 17 (May 16, 2008). In *Certain Stringed Musical Instruments*, the Commission considered whether "the relevant industry in th[e] case [was] 'in the process of being established' pursuant to section 337(a)(2)." In this matter, the Commission suggested there is a lack of statutory guidance for a domestic industry "in the process of being established" and instead looked to the legislative history of section 337(a)(2). *Certain Stringed Musical Instruments and Components Thereof*, Investigation No. 337-TA-586, Commission Opinion at 8, 14 – 17 (May 16, 2008).

<sup>6</sup> The Commission also cited the two-part test for a claimed domestic industry "in the process of being established" in at least *Certain Flash Memory Chips*, *Certain Computers and Computer Peripheral Devices*, *Certain Non-Volatile Memory Devices* and *Certain Thermoplastic-Encapsulated Electric Motors*. See, *Certain Flash Memory Chips and Products Containing Same*, 337-TA-664, Initial Determination, 2011 ITC LEXIS 2609, at 96–97 (Oct. 22, 2010) (unreviewed) (quoting *Certain Stringed Musical Instruments and Components Thereof*, Inv. No. 337-TA-586, Comm. Op. at 13 (May 16, 2008); *Certain Computers and Computer Peripheral Devices and Components Thereof*, and *Products Containing Same*, Inv. No. 337-TA-841, Commission Opinion at 40 (January 9, 2014); *Certain Non-Volatile Memory Devices and Products Containing the Same*, Inv. No. 337-TA-1046, Commission Opinion at 43 – 44 (October 26, 2018); and *Certain Thermoplastic-Encapsulated Electric Motors, Components Thereof, and Products and Vehicles Containing Same II*, Inv. No. 337-TA-1073, Commission Opinion at 6, 11 – 14 (August 12, 2019) (quoting *Certain Stringed Musical Instruments and Components Thereof*, Inv. No. 337-TA-586, Comm. Op. at 13 (May 16, 2008)).

<sup>7</sup> See, Weil, Roman L., Lentz, Daniel G., Evans, Elizabeth A., *Litigation Services Handbook: The Role of the Financial Expert*, 6th Edition, Chapter 21, p. 6.



For example, evidence an economic expert may consider under this framework include:

- Planning documents (such as business plans, manufacturing timelines, expected standard costs and output projections, sales forecasts, marketing plans, board presentations, research and development budgets, press releases, testing and pilot schedules);
- Evidence of commitments (such as prototype development, testing performed, signed contracts with third parties, purchase orders, board approvals, commitments to the general public and/or government entities, job postings and/or employee trainings); and
- Evidence of actual expenditures (such as those for manufacturing lines, equipment, testing, research and development and labor invested in the article that practices the asserted intellectual property).<sup>8</sup>

By quantifying the planned intentions, expressed commitments and actual monetary outlays a complainant has made in the relevant article as of a point in time, experts may also examine the qualitative progression of how plans are turned into commitments, which may then be turned into expenditures during the relevant time period.<sup>9</sup>

Further, plans, commitments, and expenditures and the progression of such within this economic framework over time is relevant in considering how progress has been made in exploiting the asserted intellectual property. By utilizing this economic framework, an economic expert may address both the tangible steps and significant likelihood criteria.



### The Nexus Requirement and Allocation Methodologies

Alongside the two-part test, a complainant must also establish that an industry "in the process of being established" has a nexus to the article protected by the intellectual property.<sup>10</sup> Depending on how the company maintains business records, it may be necessary to allocate the relevant domestic investments to the domestic industry article to establish a nexus. If an allocation is necessary, an economic expert can utilize an allocation methodology to allocate these investments to plans, commitments and expenditures to the domestic article.

Recent case law has seemingly expanded what can be considered as an article under this requirement, and as a result, certain methods of allocating expenses to an article may not be viable. For example, in *Certain Non-Volatile Memory Devices*, the commission in 2018 stated that "[t]he statutory language of section 337(a)(2) on its face does not require commercial production for a domestic industry in the process of being established."<sup>11</sup>

<sup>8</sup> See, Weil, Roman L., Lentz, Daniel G., Evans, Elizabeth A., *Litigation Services Handbook: The Role of the Financial Expert*, 6th Edition, Chapter 21, p. 6.

<sup>9</sup> Regarding the timing of the plans, commitments and expenditures related to the claim, generally the Commission has held that the appropriate date for determining whether a domestic industry is "in the process of being established" is the date of the complaint, but the Commission has considered post-complaint evidence. Therefore, an economic expert may bifurcate their analysis to consider evidence through the date of the complaint, and separately, through the date of the last available information. *Certain Thermoplastic-Encapsulated Electric Motors, Components Thereof, and Products and Vehicles Containing Same II*, Inv. No. 337-TA-1073, Commission Opinion at 7, 13 (August 12, 2019). See also, *Certain Luxury Vinyl Tile and Components Thereof*, Inv. No. 337-TA-1155, Order No. 36, Initial Determination (May 15, 2020), pp. 243 – 248.

<sup>10</sup> 19 U.S.C. § 1337(a)(2).

<sup>11</sup> In *Certain Non-Volatile Memory Devices*, the Commission also stated that "[t]he term 'article' on its own is sufficiently capacious to embrace pre-commercial or non-commercial items." The Commission also stated that there is no requirement that the protected articles be ready for the marketplace, nor is there a requirement for commercial production of the patented article. Moreover, according to the Commission, "the fact that section 337 allows a complainant to establish a domestic industry based on an industry 'in the process of being established' strongly suggests that Congress did not envision commercialization as a prerequisite." *Certain Non-Volatile Memory Devices and Products Containing the Same*, Investigation No. 337-TA-1046 at 39 – 44 (October 26, 2018). The Administrative Law Judge in *Certain Strontium-Rubidium Radioisotope Infusion Systems* also held that "commercial availability of a patented article in the United States is not necessary to show either that a domestic industry exists or that an industry [is] in the process of being established." *Certain Strontium-Rubidium Radioisotope Infusion Systems, and Components Thereof Including Generators*, Investigation, No. 337-TA-1110, Initial Determination at 134 (Aug. 13, 2019) (unreviewed in relevant part). Moreover, the Commission in *Certain Thermoplastic-Encapsulated Electric Motors* states that "[t]he development of protected articles is one aspect of the process of establishing a domestic industry relating to such articles. A complainant's demonstration that such protected articles exist, therefore, makes it more likely that the complainant will be able to demonstrate, inter alia, a significant likelihood that the domestic industry requirement will be satisfied in the future. But the Commission has never had to determine the circumstances, if any, in which a complainant can demonstrate a domestic industry in the process of being established absent the existence of a protected article." *Certain Thermoplastic-Encapsulated Electric Motors, Components Thereof, and Products and Vehicles Containing Same II*, Inv. No. 337-TA-1073, Commission Opinion at 11 (August 12, 2019).



Economic experts may therefore consider allocation methodologies that are not reliant on sales of commercial products. For example, a pure sales-based allocation would not be a feasible method to allocate investments to an article that is not commercially available. While there may be substantial investments in qualifying domestic activities, such as the engineering and development of the article protected by the intellectual property, a salesbased allocation would not accurately capture these investments since no sales would have occurred. Instead, an economic expert may consider other allocation methodologies, including but not limited to headcount, square footage, or expected standard costs to allocate expenditures to the article.

### Demonstrating Significance or Substantiality

It is also important to consider whether an expert should conduct a significance or substantiality analysis for a domestic industry "in the process of being established" under Section 337(a)(2) comparable to that required under Section 337(a)(3).<sup>12</sup>

For example, the commission in *Certain Non-Volatile Memory Devices* states "that emergent industry must prove that it has significant or substantial investments or employment in the United States 'with respect to articles

protected by the patent' as recited in the statute."<sup>13</sup> Additionally, in *Certain Digital Cameras, Software, and Components Thereof*, the administrative law judge in 2018 analyzed complainant's expenditures for its "in the process of being established claim" under the significance requirement in Section 337(a)(3)(B) and substantial requirement in Section 337(a)(3)(C).<sup>14</sup>

The ALJ in *Certain Digital Cameras, Software, and Components Thereof* also cited to the 2003 initial determination in *Certain Microlithographic Machines* whereby the "decision that issued held that the complainant failed to show that a domestic industry was in the process of being established because there was insufficient proof that the complainant's activities were sufficiently 'significant' under Sections 337(a)(2)(A) and (B)."<sup>15</sup>

As a result, experts may consider the significance or substantiality of activities and expenditures related to its domestic industry "in the process of being established" claim, using similar analyses as put forth for claims under Section 337(a)(3). For example, experts may present quantitative evidence to demonstrate significance and/or substantiality and also may examine the relevant investments in the context of the marketplace, the industry, and within the complainant's respective business.<sup>16</sup>

<sup>12</sup> Under Section 337(a)(3), "a complainant must substantiate the nature and the significance of its activities with respect to the articles protected by the patent at issue." See, *Certain Digital Cameras, Software, and Components Thereof*, Investigation No. 337-TA-1059, Initial Determination at 74 (September 13, 2018) (citing *Certain Printing and Imaging Devices and Components Thereof*, Inv. No. 337-TA-690, Commission Opinion at 30 (Feb. 17, 2011)).

<sup>13</sup> *Certain Non-Volatile Memory Devices and Products Containing the Same*, Inv. 337-TA-1046, Commission Opinion at 41 (October 26, 2018). Likewise, in *Certain Thermoplastic-Encapsulated Electric Motors*, the Commission appears to apply the significance or substantiality requirement under Section 337(a)(3) to a claim of a domestic industry "in the process of being established." *Certain Thermoplastic-Encapsulated Electric Motors, Components Thereof, and Products and Vehicles Containing Same II*, Inv. No. 337-TA-1073, Commission Opinion at 14 (August 12, 2019).

<sup>14</sup> *Certain Digital Cameras, Software, and Components Thereof*, Investigation No. 337-TA-1059, Initial Determination (September 13, 2018). I note that the Investigation was terminated before the Commission provided an opinion.

<sup>15</sup> See, *Certain Digital Cameras, Software, and Components Thereof*, Investigation No. 337-TA-1059, Initial Determination at 79 (September 13, 2018) (citing *Certain Microlithographic Machines with Control Systems Having Programmable Operator Interfaces Incorporating General Purpose Computers, and Components Thereof II*, Inv. No. 337-TA-468, Initial Determination at 368 (Apr. 4, 2003)).

<sup>16</sup> See, for example, *Lelo, Inc., v. International Trade Commission*, No. 2013-1582, (Fed. Cir. May 11, 2015); and *Certain Printing and Imaging Devices and Components Thereof*, USITC Pub. 4289, Inv. No. 337-TA-690, November 2011, at 31. Experts should also consider that "[t]he Commission has rejected a finding of quantitative significance based solely on the absolute value of the domestic industry investments devoid of any context." (*Certain Luxury Vinyl Tile and Components Thereof*, Inv. No. 337-TA-1155, Order No. 36, Initial Determination (May 15, 2020), at 229).

In the context of demonstrating significance or substantiality for the domestic industry "in the process of being established," however, actual expenditures may be limited. As such, an economic expert may consider additional quantitative evidence, including not only actual expenditures but plans and commitments for forthcoming expenditures; and qualitative evidence, such as whether the domestic industry article is expected to result in a new market category and/or substantially new sales to the company, the expected return on investment for the intellectual property holder, and whether research and development or engineering efforts and further development of the domestic industry article is continuing.

### Potential to Request a Reporting Requirement

Finally, parties may consider whether a domestic industry "in the process of being established" is susceptible to a reporting requirement.<sup>17</sup> If respondents can persuade the commission that an industry "in the process of being established" is susceptible to a reporting requirement, this may result in an increase of requests for a reporting requirement in investigations in which complainants establish that an industry is "in the process of being established."

Economic experts may assist complainants subject to a reporting requirement, or conversely, respondents requesting a reporting requirement by, for example, examining the expenditure patterns surrounding the plans, commitments, and expenditures a complainant has made for the industry that is "in the process of being established."



### Conclusion

The emergence of the two-part test for demonstrating a domestic industry "in the process of being established" and subsequent case law offers guidance to parties seeking to establish an emerging domestic industry at the ITC. However, while in some instances, the commission appears to have loosened the threshold for meeting this claim (*i.e.*, commercialization is not a prerequisite) in other instances the commission's guidance may in fact require a heightened evidentiary threshold (*i.e.*, possibility of a significance requirement).

While there is no absolute evidentiary threshold for a complainant claiming a domestic industry "in the process of being established," expect parties to test the commission's guidance in the future.

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<sup>17</sup> See, for example, Certain Strontium-Rubidium Radioisotope Infusion Systems, and Components Thereof Including Generators, Investigation No. 337-TA-1110, Initial Determination at 155 (Aug. 13, 2019) (unreviewed in relevant part). Although the complainant in Certain Strontium-Rubidium Radioisotope Infusion Systems did not claim an industry "in the process of being established," respondents might counter "in the process of being established" claims by suggesting that the future of an industry "in the process of being established" is similarly uncertain and might warrant a reporting requirement.

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