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Res Judicata Effect of United States International Trade Commission Patent Decisions

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Res Judicata Effect of United States International Trade Commission Patent Decisions

I. INTRODUCTION

In *In re Convertible Rowing Exerciser Patent Litigation*,[1] a federal district court refused to give preclusive effect to an International Trade Commission (ITC) patent decision, even though the patent issue had been fully and fairly litigated in the ITC.[2] The *Convertible Rowing* decision represents the current majority rule which, in effect, promotes great waste of judicial and individual resources. Because the federal courts do not give preclusive effect to ITC decisions on patent issues, parties can use the system to fully litigate a single issue in two different forums in either subsequent or simultaneous actions.

First, complainants can use an ITC unfair trade proceeding (1337 proceeding) as a mere "test run" against alleged patent infringers.[3] For example, if a complainant loses in the ITC proceeding, the complainant may appeal that decision to the Court of Appeals for the Federal Circuit. If the complainant loses on appeal, he or she may subsequently file the same suit in federal district court and ask the court to litigate the patent issues de novo.[4] The expectation that ITC decisions will not have *preclusive effect* in the district courts, coupled with the usual speed of unfair trade actions in the ITC, make the ITC a very attractive forum for complainants.[5]

Alternatively, the complainant could proceed simultaneously in the ITC and in a federal district court with both decisions being appealable to the Federal Circuit. The weight of dual-system litigation could be totally devastating to an economically weak respondent.

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1. 721 F. Supp. 596 (D. Del. 1989), *aff'd*, 903 F.2d 822 (Fed. Cir. 1990).
2. *Id.*
3. *See* Lupo, *Dual-Path Litigation Before the International Trade Commission and the Federal Courts in Import Cases Involving U.S. Patents*, 22 PAT. L. ANN. 411 (1984).
4. 28 U.S.C. § 1338 (1988).
5. *See* Lever, *Unfair Methods of Competition in Import Trade: Actions Before the International Trade Commission*, 41 BUS. LAW. 1165, 1167 (1986) (discussing the aspects of ITC unfair trade actions which appeal to complainants).

Respondents can also use the system to their advantage. A respondent losing in the ITC proceeding can file suit in a federal district court to relitigate the patent issues and obtain a writ staying enforcement of the ITC order against him.[6] Using this procedure, an economically strong respondent may prevail over an economically weak complainant by drawing the weak complainant into protracted litigation that he or she simply cannot afford.

Failure to accord ITC decisions preclusive effect in patent matters promotes waste of judicial resources and of litigants' resources. The Federal Circuit has recognized this potential waste, stating that "the evils of vexatious litigation and waste of resources are no less serious because the second proceeding is before an administrative tribunal."[7] Fortunately, several remedies are available which eliminate this waste while maintaining judicial integrity in final decisions.

This comment examines the consequences of the current lack of preclusive effect which federal courts give to ITC patent decisions. Section II explores the legal background from which this rule has evolved. Section III discusses an example of one case in which lack of preclusive effect has had a detrimental effect. Section IV analyzes the doctrines of claim preclusion and issue preclusion as applied to questions of patent validity in the federal courts. The analysis focuses on arguments both favoring and disfavoring preclusion. This comment concludes that the federal courts' refusal to afford preclusive effect to ITC patent decisions results in a waste of resources. It also recommends specific options available to the federal government to effectively solve the dual-path problem.

II. LEGAL BACKGROUND

A. *Dual-Path Jurisdictional Considerations*

The reason for dual-path litigation between the ITC and the district courts is the overlapping jurisdiction which Congress has granted to these two forums. In stating the problem, the Fourth Circuit said, "In short, the Congress has created two separate jurisdictions: One with jurisdiction over 'unfair acts' in connection with the importation of articles from abroad (the Commission), and the other with jurisdiction over the

6. 28 U.S.C. § 1338 (1988).
7. Young Eng'rs, Inc. v. ITC, 721 F.2d 1305, 1315 (Fed. Cir. 1983).

validity of domestic patents (the district court)."[8] Because a determination of "unfair acts" in importation often requires a finding on the validity of a patent, both the ITC and the district courts, in effect, have original jurisdiction over patent issues. *Original jurisdiction* is simply a tribunal's power "to take cognizance of a cause at its inception, try it, and pass judgment upon the law and facts."[9]

Without original jurisdiction, a tribunal cannot act on the merits of a matter at its inception; original jurisdiction, however, does not imply *exclusive jurisdiction*. Rather, *exclusive jurisdiction* means that a given tribunal is the only tribunal that can decide a particular type of issue.[10]

1. Jurisdiction in the ITC

The ITC has original and exclusive jurisdiction over matters of unfair importation of articles.[11] In particular, in a 1337 proceeding the ITC has the power to exclude products from entry into the United States if importing those products constitutes "unfair acts in the importation of articles."[12] The patent laws do not include the right to prevent violators from importing infringing articles.[13] Thus, neither federal nor state courts have the power to prohibit importation of goods that infringe valid U.S. patents.

Today, the ITC's original jurisdiction over unfair importation includes jurisdiction over patent infringement and validity issues.[14] However, until 1974, the ITC lacked original jurisdiction to consider the validity of patents before it. The Trade Reform Act of 1974 expressly changed this by authorizing the ITC to consider "all legal and equitable defenses" brought before it.[15] Thus, under the Trade Reform Act of 1974, the inval-

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8. Ashlow, Ltd. v. Morgan Constr. Co., 672 F.2d 371, 375 (4th Cir. 1982).
9. BLACK'S LAW DICTIONARY 1099 (6th ed. 1990).
10. *Id.* at 564.
11. *Ashlow*, 672 F.2d at 375.
12. *Id.* at 372.
13. *See* 35 U.S.C. § 271 (1988).
14. 19 U.S.C. § 1337 (1988).
15. Pub. L. No. 93-618, 88 Stat. 2054 (1975) (codified at 19 U.S.C. § 1337 (1988) (citation omitted)), provides in pertinent part:

> (a) Unlawful activities; covered industries; definitions
>
> (1) Subject to paragraph (2), the following are unlawful, and when found by the Commission to exist shall be dealt with, in addition to any other provision of law, as provided in this section:
>
> . . . .

idity of a patent may be plead as a defense to an unfair trade action in the ITC.

Moreover, the Omnibus Trade and Competitiveness Act of 1988 again dramatically enlarged the ITC's original jurisdiction.[16] Therein, Congress amended 19 U.S.C. § 1337 to eliminate the required showing of injury in cases based on infringement of certain valid and enforceable intellectual property rights.[17] Between 1974 and 1988, validity and enforceability could be raised only in response to a complaint. After 1988, complainants were required to plead patent infringement as an element of the cause of action in the complaint.[18]

(B)The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that—

(i) infringe a valid and enforceable United States patent or a valid and enforceable United States copyright registered under title 17; or

(ii) 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.

(C)The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that infringe a valid and enforceable United States trademark registered under the Trademark Act of 1946.

. . . .

(2) Subparagraphs (B) [and] (C) . . . of paragraph (1) apply only if an industry in the United States, relating to the articles protected by the patent, copyright, trademark or mask work concerned, exists or is in the process of being established.

. . . .

(c) Determinations; review

The Commission shall determine, with respect to each investigation conducted by it under this section, whether or not there is a violation of this section, except that the Commission may, by issuing a consent order or on the basis of a settlement agreement, terminate any such investigation, in whole or in part, without making such a determination. Each determination under subsection (d) or (e) of this section shall be made on the record after notice and opportunity for a hearing in conformity with provisions of subchapter II of chapter 5 title 5. All legal and equitable defenses may be presented in all cases. Any person adversely affected by a final determination of the Commission under subsection (d), (e), (f) or (g) of this section may appeal such determination, within 60 days after the determination becomes final, to the United States Court of Appeals for the Federal Circuit for review in accordance with chapter 7 of title 5.

16. 19 U.S.C. § 1337(a)(1)(B)(i) (1988).

17. *Id.* The added section makes "unlawful" the "importation" of articles that "infringe a valid and enforceable United States patent." *Id.*

18. *Id.*

2. Jurisdiction in the district courts

The federal district courts are given original jurisdiction for the protection of intellectual property rights in 28 U.S.C. § 1338.[19] The district courts' power over patents is also exclusive but in a very limited sense. Section 1338's grant of jurisdiction over patent actions specifically excludes state courts, but state courts may still hear and decide patent issues necessary to state court causes of action.[20] While the district court is the only court in which a party may bring an action based on federal patent statutes, actions based on license contracts or state antitrust statutes which involve patent issues do not fall within the exclusive jurisdiction of the district court.[21] Thus, a state court adjudicating a license contract action may adjudicate patent issues that are necessary to resolve the case, using Federal Circuit precedent as guidance.[22] Most importantly, section 1338 does not preclude the ITC or any other administrative body from adjudicating patent issues linked to other issues before them.[23]

B. Doctrines of Claim Preclusion and Issue Preclusion

Whereas jurisdictional statutes mandate the forum in which actions may be brought, claim and issue preclusion prevent an action from being brought more than once. *Claim pre-*

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19. Section 1338 provides:

(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trade-marks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

(b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent, plant variety protection or trade-mark laws.

(c) Subsections (a) and (b) apply to exclusive rights in mask works under chapter 9 of title 17 to the same extent as such subsections apply to copyrights.

20. *See* Lear, Inc. v. Adkins, 395 U.S. 653 (1969); Intermedics Infusaid, Inc. v. Regents of the Univ. of Minn., 804 F.2d 129 (Fed. Cir. 1986); *In re* Oximetrix, Inc., 748 F.2d 637 (Fed. Cir. 1984); Beghin-Say Int'l, Inc. v. Ole-Bendt Rasmussen, 733 F.2d 1568 (Fed. Cir. 1984).

21. *See* cases cited *supra* note 20.

22. Speedco, Inc. v. Estes, 853 F.2d 909, 914 (Fed. Cir. 1988).

23. 28 U.S.C. § 1338 (1988).

clusion, also referred to as res judicata, bars a complainant from raising a claim again if two parties have fully litigated a particular "claim" resulting in a final judgment.[24] However, claim preclusion bars only further adjudication of claims which have been fully adjudicated on the merits.[25]

Issue preclusion, also referred to as collateral estoppel, bars the relitigation of issues actually litigated in a prior action.[26] Issue preclusion applies only to issues that are: (1) identical; (2) actually litigated in the prior action; and (3) essential to the final judgment of the prior action. Additionally, the plaintiff must have had an opportunity to fully and fairly litigate the issue in the first action.[27] In this comment, the effect of both claim and issue preclusion is referred to as *preclusive effect*.

C. *Preclusive Effect of Federal Agency Decisions*

Federal agency decisions are normally given preclusive effect.[28] The law is well established that when an administrative agency is acting in a judicial capacity and resolves disputed issues of fact properly before it which the parties have had an adequate opportunity to litigate, the resulting decision should be given preclusive effect in the district courts.[29] Thus, it logically follows that when the ITC, a federal administrative agency, acts in a judicial capacity, the resulting decisions should be given preclusive effect in the district courts. But they are not.

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24. RESTATEMENT (SECOND) OF JUDGMENTS §§ 18-19 (1982). A claim is equivalent to a plaintiff's cause of action. If a plaintiff sues on any part of his claim, he is precluded from further litigation on that claim.

25. RESTATEMENT (SECOND) OF JUDGMENTS § 20(2) (1982). Full adjudication on the merits does not include dismissal without prejudice.

26. RESTATEMENT (SECOND) OF JUDGMENTS § 27 (1982).

27. RESTATEMENT (SECOND) OF JUDGMENTS § 28 (1982). *See also* Blonder-Tongue Laboratories, Inc. v. University of Ill. Found., 402 U.S. 313, 323 (1971).

28. *See, e.g.*, United States v. Utah Constr. & Mining Co., 384 U.S. 394 (1966) (when an administrative agency is acting in a judicial capacity and resolves disputed issues of fact properly before it in which parties have had adequate opportunity to litigate, courts may apply res judicata to enforce repose); Stillians v. Iowa, 843 F.2d 276 (8th Cir. 1988) (a discharge claim under Age Discrimination in Employment Act can be precluded by prior unreviewed state administrative decision if the decision is a result of a fair hearing before the administrative agency acting in a judicial capacity); Union Mfg. Co. v. Han Baek Trading Co., 763 F.2d 42 (2d Cir. 1985) (the court gave ITC trademark decisions preclusive effect); Baltimore Luggage Co. v. Samsonite Corp., 727 F. Supp. 202 (D. Md. 1989) (the district court held that ITC decisions on trademark issues are res judicata in the district courts if the litigants had a full and fair opportunity to litigate in the ITC).

29. United States v. Utah Constr. & Mining Co., 384 U.S. 394 (1966).

D. Current State of the Law

In *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*,[30] the Supreme Court held that once a patent has been held invalid, the patent owner is thereafter precluded from relitigating the validity of the patent so long as the patent owner had a full and fair opportunity to litigate in the prior proceeding.[31] *Blonder-Tongue* has been applied to decisions rendered in most administrative forums which were subsequently taken to federal court.[32] However, ITC decisions on patent issues are an anomalous exception to this general rule, because *Blonder-Tongue* has not been conclusively held applicable to these decisions. It seems logical that since ITC unfair trade proceedings provide the parties with a full and fair opportunity to litigate patent issues, ITC judgments should be given preclusive effect. Accordingly, there exists some authority holding that ITC decisions on patent issues should be given preclusive effect.[33]

However, the Federal Circuit has heard the issue of preclusive effect based only on a cursory analysis of the Trade Reform Act of 1974.[34] Without clear direction from the Federal Circuit, the majority of district courts, following *Convertible Rowing*,[35] have not granted preclusion to ITC patent decisions, despite ample reasons favoring preclusion.[36]

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30. 402 U.S. 313 (1971).

31. 402 U.S. at 350.

32. *See* cases cited *supra* note 28.

33. Dudley Shearing Mach. Mfg. Co. v. LaBounty Mfg. Co., No. C-C-86-295-M (W.D.N.C. Mar. 17, 1988). A district court order approved preclusive effect of ITC patent decisions in the district courts in is an unreported case.

34. *See, e.g.*, Texas Instruments v. ITC, 851 F.2d 342 (Fed. Cir. 1988); Tandon Corp. v. ITC, 831 F.2d 1017 (Fed. Cir. 1987) (appellate treatment of decisions of the Commission does not estop fresh consideration by other tribunals); Corning Glass Works v. ITC, 799 F.2d 1559, 1570 n.12 (Fed. Cir. 1986); Lannom Mfg. Co. v. ITC, 799 F.2d 1572, 1578-79 (Fed. Cir. 1986) (the ITC did not have jurisdiction to unilaterally determine validity, absent the presentment of such a defense by a party).

35. 721 F. Supp. 596 (D. Del. 1989), *aff'd*, 903 F.2d 822 (Fed. Cir. 1990), *cert. denied*, ??? U.S. ??? (1990).

36. Madsen, *Federal Practice and Procedure*, 1989, A.B.A. SECTION PATENT, TRADEMARK AND COPYRIGHT LAW REPORT 190.

III. *In Re Convertible Rowing Exerciser Patent Litigation*

A. *Background*

In October 1984, Diversified Products Corporation (DP) and Brown Fitzpatrick Lloyd, Ltd. (BFL) filed a patent infringement action against Weslo, Inc. (Weslo) in the United States District Court for the District of Utah.[37] This action was consolidated with nine other similar actions and transferred to the United States District Court for the District of Delaware.[38] All the actions asserted patent infringement, under 35 U.S.C. § 271, of U.S. Patent No. 4,477,071 for a "Convertible Rowing Exercising Apparatus" (the '071 patent).[39]

Almost simultaneously with the district court actions, DP filed a complaint with the ITC against Weslo, pursuant to 19 U.S.C. § 1337.[40] The ITC conducted a formal investigation of DP's allegations that Weslo was committing acts of unfair trade practice in violation of section 1337 by importing goods which infringed the '071 patent. Weslo defended on the grounds that the '071 patent was invalid and not infringed.[41] After extensive discovery, the ITC held a ten-day trial, resulting in an initial determination entered by the Administrative Law Judge (ALJ). The ALJ found that the '071 patent was "anticipated" and "obvious" and therefor invalid.[42]

The full ITC reviewed the initial determination and reversed the ALJ's conclusion of anticipation but sustained the ALJ in his determination that Weslo had not violated section 1337 on the ground that the '071 patent was obvious.[43] DP thereafter appealed to the Court of Appeals for the Federal Circuit, which affirmed the ITC decision that the '071 patent was

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37. *Convertible Rowing*, 721 F. Supp. at 597.
38. *Id.*
39. *Id.*
40. *Id.* at 597-98.
41. "Weslo, Inc. was the only defendant common to the District Court action and the ITC proceeding and was the only *active* participating defendant before the ITC." *Id.* at 598 (emphasis added).
42. "Anticipated" means that the item was not novel or different from other exercise machines. 35 U.S.C. § 102 (1988). "Obvious" means it was enough like other exercise machines that it was an obvious application of the technology. 35 U.S.C. § 103 (1988). All additional defenses raised by the defendant were disallowed so that the only basis for the ALJ's decision and the subsequent ITC decision was invalidity of the '071 patent. 721 F. Supp. at 598.
43. *Convertible Rowing*, 721 F. Supp. at 598.

invalid.[44]

While the ITC case proceeded, the consolidated cases in Delaware were stayed by stipulation. After losing in the ITC and Federal Circuit, DP turned again to the civil suits consolidated in Delaware, seeking to relitigate the very same issue that had been decided against it: the validity of the '071 patent.[45]

On January 27, 1988, Weslo filed a motion for summary judgment in the Delaware district court seeking dismissal on grounds of issue and claim preclusion.[46] In response, the court considered whether the district court's original jurisdiction under 28 U.S.C. § 1338(a) totally precluded the application of the issue and claim preclusion doctrines.[47]

The Delaware district court entered an order denying summary judgment and certified its order for immediate appeal, pursuant to 28 U.S.C. § 1292(b).[48] The Federal Circuit declined to hear the appeal and denied rehearing of that decision.[49] The Supreme Court subsequently denied certiorari.[50]

B. The District Court's Reasoning

The main issue before the district court was whether an ITC determination concerning patent validity, affirmed by the Federal Circuit, should be given preclusive effect in a district court.[51] Dealing with this issue, the court discussed three arguments favoring preclusive effect, and then three arguments disfavoring preclusive effect. Finally, the court concluded that preclusive effect was improper. This holding was based on the legislative history of 19 U.S.C. § 1337 and on the court's perception that the form and substance of patent issues in the ITC

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44. *Id.*
45. *Id.* at 596-603.
46. *Id.*
47. *Id.*
48. *Id.* at 604.
49. *In re* Convertible Rowing Exerciser Patent Litig., 903 F.2d 822 (Fed. Cir. 1990).
50. Weslo, Inc. v. Diversified Prods. Corp., 111 S. Ct. 248 (1990).
51. "The question . . . [was] one of first impression because of the relatively recent passage of the Federal Court Improvements Act of 1982. Previously, decisions of federal District Courts on patent matters were appealed to the Court of Appeals in the Circuit of that District Court. Decisions of the ITC were appealed to the United States Court of Customs and Patent Appeals (CCPA). Now decisions of District Courts on patent questions and all decisions of the ITC are appealed to the Federal Circuit." *Convertible Rowing*, 721 F. Supp. at 597 (citations omitted).

and the district courts are different, and, therefore, a patent decision by the ITC should not be preclusive in a district court.[52]

1. The district court's analysis favoring preclusive effect

First, the court considered the rule promulgated in *Blonder-Tongue* that once the owner of a patent has had a full and fair opportunity to litigate the validity of a patent, that owner is precluded from relitigating the validity of the patent.[53] The court stated that complainants had a full and fair opportunity to litigate the patent before the ITC because the procedural and substantive aspects of the proceeding were adequate. Also, the court noted that complainants chose to pursue their relief in the ITC.[54]

Second, the court discussed the doctrine of "administrative res judicata,"[55] which requires an administrative agency to act in a judicial capacity when making the decision at issue.[56] The court stated that the ITC has acted in a judicial capacity when it considered the validity of the patent in accordance with this requirement.[57]

Third, the court noted the practical problems that would occur if preclusive effect were not afforded to the ITC decision. If preclusive effect were not granted, the district court could find the patent to be valid. This would mean that the district court would be in direct disagreement with the Federal Circuit's prior decision, and the Federal Circuit then would likely have to consider the same issue on appeal for a second time.[58] Additionally, the court noted that those persons who had relied upon the Federal Circuit's affirmance of the ITC decision could face severe financial harm.[59]

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52. *Id.*
53. *Id.* at 600.
54. *Id.*
55. This doctrine was established in *United States v. Utah Construction & Mining Co.*, 384 U.S. 394 (1966).
56. *Id.*
57. *Convertible Rowing*, 721 F. Supp. at 600.
58. *Id.* at 599.
59. The court gave the example of persons who, attempting to produce a product for market, might invest capital in reliance on a determination by the ITC and an affirmance by the Federal Circuit. *Id.*

2. The district court's analysis disfavoring preclusive effect

The court used jurisdiction as a means to justify denial of preclusive effect. First, the court considered the respective jurisdictional statutes which empowered the ITC and the district court to hear this dispute.[60] The court stated that Congress placed original jurisdiction over patent questions in the federal district courts[61] and original jurisdiction over unfair import trade practices exclusively in the ITC.[62] The court went on to say that due to the separate jurisdiction of the two forums, the treatment of patent issues differs in both form and substance.[63] In justifying this position, the court said that "Congress, in promulgating the jurisdictional parameters for the ITC and the federal District Courts, created two separate jurisdictions to consider two distinct questions: jurisdiction over unfair trade acts lies with the ITC while jurisdiction over the validity, enforceability and infringement of patents lies with the federal District Courts."[64]

The court then noted that the Federal Circuit and other courts have considered this issue.[65] These courts all cited specific language saying that ITC patent findings are "properly not accorded res judicata effect because the ITC has no jurisdiction to determine patent invalidity, except to the limited extent necessary to decide a case otherwise properly before it."[66] The Federal Circuit has also stated that its appellate treatment of ITC determinations as to patent validity does not estop other tribunals from reconsidering the question of patent validity.[67] Finally, the court interpreted the legislative history of the Trade Reform Act of 1974 as expressly limiting ITC determinations of patent questions since the federal district courts have original and exclusive jurisdiction over patent matters.[68]

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60. *Convertible Rowing*, 721 F. Supp. at 600-02.
61. 28 U.S.C. § 1338 (1988).
62. 19 U.S.C. §§ 1332(b), 1337 (1988).
63. *Convertible Rowing*, 721 F. Supp. at 601.
64. *Id.*
65. *See, e.g.*, Union Mfg. Co. v. Han Baek Trading Co., 763 F.2d 42, 45 (2d Cir. 1985).
66. *Convertible Rowing*, 721 F. Supp. at 601.
67. Tandon Corp. v. ITC, 831 F.2d 1017, 1019 (Fed. Cir. 1987).
68. *Convertible Rowing*, 721 F. Supp. at 602.

3. Rejection of the arguments for preclusive effect

The court rejected the arguments favoring preclusive effect, stating that the issues litigated before the ITC and affirmed by the Federal Circuit were not the same issues that it would examine on the merits.[69] Once again, the court cited jurisdiction as a valid reason for denial of preclusive effect. The court stated that "the ITC only considered the patent issue to the extent it needed to exercise its jurisdiction under section [1]337", while "[t]he question on the merits . . . will involve solely an inquiry into patent issues under section 1338."[70]

IV. ANALYSIS

Given the current state of the law, patent issues decided in the ITC could be given preclusive effect in the federal district courts. There are at least three reasons supporting preclusive effect. First, the Supreme Court has said that decisions of administrative agencies will be given preclusive effect when an agency is acting in a judicial capacity.[71] Second, the ITC currently has original jurisdiction to hear patent issues in unfair trade proceedings.[72] Third, the current rule forces parties to bear tremendous and unnecessary economic and administrative burdens. For example, in *Convertible Rowing*, the court forced Weslo to bear the burden of a second trial on the merits of the patent issue by not giving the ITC patent decision preclusive effect. Fairness dictates that one party should not be empowered to force two complete judicial proceedings on another party en route to a final decision on a single issue. Better alternatives exist that will allow both parties a full and fair opportunity to litigate their disputes before a competent tribunal.

A. The Supreme Court's View of Collateral Estoppel and Res Judicata

Refusal to grant preclusive effect to ITC patent decisions disregards the Supreme Court's prior decisions in *Blonder-*

69. *Id.* at 603.
70. *Id.*
71. United States v. Utah Constr. & Mining Co., 384 U.S. 394, 421 (1966).
72. 19 U.S.C. § 1337 (1988).

Tongue[73] and *Utah Construction.*[74] In *Blonder-Tongue*, the Court established that once a patent has been held invalid, the patent owner is thereafter precluded from relitigating the validity of the patent so long as the patent owner had a full and fair opportunity to litigate in the prior proceeding.[75] The Court's decision in *Blonder-Tongue* has been followed and cited extensively.[76]

In *United States v. Utah Construction & Mining Co.*,[77] the Court held that findings of federal agencies are to be given preclusive effect where the agency acted in a judicial capacity.[78] The holdings from these cases argue strongly in favor of affording preclusive effect to ITC decisions in the federal district courts.

Additionally, the Supreme Court has long embraced the judicial interests served by the doctrines of collateral estoppel and res judicata. These doctrines serve the "dual purpose of protecting litigants from the burden of relitigating an identical issue with the same party . . . and of promoting judicial economy."[79] Both doctrines are "central to the purpose for which civil courts have been established, the conclusive resolution of disputes."[80]

These doctrines also provide many practical benefits. The Court in *Allen v. McCurry*[81] stated that the preclusion doctrines serve to "relieve parties of the cost and vexation of multiple lawsuits . . . by preventing inconsistent decisions [and] encourag[ing] reliance on adjudication."[82] "Public policy dictates that there be an end of litigation . . . where one voluntarily

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73. 402 U.S. 313 (1971).

74. 384 U.S. 394 (1966).

75. 402 U.S. at 350.

76. *See, e.g.*, Allen v. McCurry, 449 U.S. 90, 95 (1980); Parklane Hosiery Co. v. Shore, 439 U.S. 322, 326 (1979); MGA, Inc. v. General Motors Corp., 827 F.2d 729, 735 (Fed. Cir. 1987), *cert. denied*, 484 U.S. 1009 (1988); Molinaro v. Fannon/Courier Corp., 745 F.2d 651, 655 (Fed. Cir. 1984); Mississippi Chem. Corp. v. Swift Agric. Chems. Corp., 717 F.2d 1374, 1376-79 (Fed. Cir. 1983).

77. 384 U.S. at 421-22.

78. *Id.*

79. Parklane Hosiery Co. v. Shore, 439 U.S. 322, 326 (1979) (party losing in SEC agency dispute estopped in later civil suit).

80. Montana v. United States, 440 U.S. 147, 153 (1979) (citing Southern Pac. R.R. Co. v. United States, 168 U.S. 1, 48-49 (1879)) (the issue was the application of preclusion doctrines based on prior state court proceedings).

81. 449 U.S. 90 (1980).

82. *Id.* at 94.

appears . . . and is fully heard."[83]

In the *Convertible Rowing* case, the district court correctly found that DP had a full and fair opportunity to litigate the validity of the patent in the ITC hearing. Also, the court correctly found that the ITC was acting in a judicial capacity when it found the patent invalid.[84] Additionally, the Federal Circuit, an article III court, affirmed the ITC decision. In fact, in *Convertible Rowing*, the district court determined that all but one of the requirements of *Blonder-Tongue* and *Utah Construction* were fully satisfied.[85] The district court held that *Blonder-Tongue* doctrine did not apply because the issues were not precisely identical.[86] The court in *Convertible Rowing* incorrectly justified its finding that the patent issues were not identical by focusing on the differences in the jurisdictional statutes governing the ITC and the district courts. This comment will show that the differing jurisdiction of the ITC and the district courts is no bar to granting preclusive effect to ITC patent decisions.

Practical problems arise in the judiciary by not affording preclusive effect to ITC patent decisions. The court in *Convertible Rowing* addressed the possibility that Weslo could be a victor in the ITC and a loser in the district court.[87] The absurd result of this would be a valid patent for some purposes and an invalid patent for others.[88] By not according preclusive effect, the court imposed on Weslo the burden of another full trial on the merits of the patent issue with all the associated legal fees and costs. Moreover, parties like Weslo lose the benefit of finality in litigation. For example, DP will be able to point to Weslo as an alleged infringer as a strategy to persuade customers to refrain from dealing with Weslo.[89]

B. District Courts Have Original Jurisdiction in Patent Questions

Patent issues decided as part of ITC unfair trade proceedings under 19 U.S.C. § 1337 are identical to patent issues de-

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83. Baldwin v. Iowa State Traveling Men's Ass'n, 283 U.S. 522, 525-26 (1931).
84. *Convertible Rowing*, 721 F. Supp. at 600.
85. *Id.*
86. *Id.* at 603.
87. *Id.* at 598-99.
88. *Id.* at 599.
89. Finality in this context refers to ending the litigation after the parties have exhausted available appeals from an ITC decision.

cided under 28 U.S.C. § 1338 in the federal district courts. Congress placed original and exclusive jurisdiction over patent matters in the federal district courts.[90] On the other hand, original jurisdiction over unfair trade practices in import trade is vested exclusively in the ITC.[91] The district court in *Convertible Rowing* concluded that a jurisdictional conflict exists between the jurisdictional statutes of the district courts and the ITC, making patent issues decided in these two forums somehow different issues.[92] However, this conclusion is flawed, because the application of the doctrines of issue and claim preclusion will not transfer any additional jurisdictional authority to consider patent cases to the ITC.

The case of *Christianson v. Colt Industries Operating Corp.*[93] shows how the district court's reliance on jurisdiction in limiting the effect of ITC patent decisions is unfounded. In *Christianson*, the trial court decided several patent issues while making a decision on antitrust claims. On appeal, the Seventh Circuit decided that the Federal Circuit had exclusive jurisdiction of the patent questions involved and thus transferred the case to the Federal Circuit. The Federal Circuit disagreed. The Supreme Court agreed with the Federal Circuit and held that the Federal Circuits's exclusive jurisdiction over patent appeals did not bar other appellate tribunals from considering patent questions in resolving claims or cases properly before it.[94]

Unlike the *Convertible Rowing* decision, the *Christianson* decision demonstrates that a tribunal can decide patent questions without intruding on the exclusive jurisdiction of the Federal Circuit when resolving questions properly before it. It logically follows that application of the preclusion doctrines to patent questions decided en route to deciding an issue properly before the ITC does not transfer or undermine the patent jurisdiction of the district courts. Thus, the jurisdictional statute authorizing an action to be brought in a given forum has no bearing on whether a patent is valid and enforceable.

C. *Legislative History of the Trade Reform Act of 1974*

The Federal Circuit has asserted that an ITC determina-

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90. 28 U.S.C. § 1338 (1988).
91. 19 U.S.C. §§ 1332(b), 1337 (1988).
92. *Convertible Rowing*, 721 F. Supp. at 601.
93. 486 U.S. 800 (1988).
94. *Id.*

tion of patent validity "does not estop fresh consideration by other tribunals."[95] Since the Trade Reform Act of 1974 contains no language which speaks to the preclusive effect of ITC decisions, this assertion was based on a single statement in the legislative history of the Trade Reform Act of 1974.[96] The statement is contained in a portion of a Senate Finance Committee Report:

> The Commission's findings neither purport to be, nor can they be, regarded as binding interpretations of the U.S. patent laws in particular factual contexts. Therefore, it seems clear that any disposition of a Commission action by a Federal Court should not have a res judicata or collateral estoppel effect in cases before such courts.[97]

Courts relying on this statement fail to recognize that legislative history may become irrelevant when the legislation it refers to is significantly modified by new legislation, as here.[98] Thus, the above statement is simply not controlling due to recent legislative developments which have changed the jurisdiction of the ITC and the structure of the portion of federal court system which adjudicates patent issues. These significant changes will now be discussed in detail.

The first of these changes occurred in 1974 with the passage of the Trade Reform Act. Prior to the Trade Reform Act of 1974, the ITC did not have jurisdiction to determine the validity of patents. The 1974 Act changed the ITC's jurisdiction by

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95. Tandon Corp. v. ITC, 831 F.2d 1017, 1019 (Fed. Cir. 1987). However, this case does not refer to *Blonder-Tongue*, *Utah Construction*, or any other authority on the doctrine of issue or claim preclusion.

96. This act modified 19 U.S.C. § 1337 to its present form.

97. S. REP. NO. 1298, 93d Cong., 2d Sess. 193, 196, *reprinted in* 1974 U.S. CODE CONG. & ADMIN. NEWS 7186, 7329. Several Federal Circuit cases asserting that ITC patent determinations should not be given preclusive effect refer to this passage. The Federal Circuit in *In re* Convertible Rowing Exerciser Patent Litig., 903 F.2d 822 (Fed. Cir. 1990), refused to hear Weslo's appeal on the issue of preclusion but stated that it had considered that question of law on four previous occasions. *See* cases cited *supra* at note 34. In Corning Glass Works v. ITC, 799 F.2d 1559, 1570 (Fed. Cir. 1986), the court noted the existence of the argument based on the passage. Also, in Union Mfg. Co. v. Han Baek Trading Co., 763 F.2d 42 (2d Cir. 1985), the court gave ITC trademark decisions preclusive effect, commenting in dicta that patent decisions would not be given preclusive effect, based on the passage in the legislative history.

98. Just as it is appropriate when construing a statute to consider circumstances when the statute is enacted, Callejas v. McMahon, 750 F.2d 729, 731 (9th Cir. 1984), a court must also consider significant changes that have occurred since that time. Perry v. Commerce Loan Co., 383 U.S. 392, 399 (1966).

authorizing the ITC to entertain "[a]ll legal and equitable defenses" brought before it.[99] The legislative history of the 1974 amendment states that the ITC may and should, when presented, review the validity and enforceability of patents.[100]

The second change was the creation of the Federal Circuit in 1982.[101] This changed the judicial review of ITC determinations because the Federal Circuit was given exclusive jurisdiction to hear appeals from ITC decisions[102] and appeals from all district courts in cases arising under the patent statute.[103] Previously, such appeals went to the various Circuit Courts.

The third change was the Omnibus Trade and Competitiveness Act of 1988 which gave the ITC the power to decide patent issues as part of the cause of action presented.[104] This change, in effect, gave the ITC original jurisdiction to hear patent issues. Given these dramatic changes in circumstances since the 1974 amendment was enacted, the legislative history to that amendment is of little value in determining whether ITC decisions should be given preclusive effect. In 1974, Congress was not aware that both ITC and district court decisions on patent validity would be reviewed by the same tribunal and that the ITC would be empowered to hear cases with patent issues plead in a cause of action.

In light of these recent unforeseen circumstances, it is improper to give persuasive weight to only two sentences in the legislative history of a statute which does not expressly address the questions of issue and claim preclusion. It is particularly important not to give these sentences much weight since the *Blonder-Tongue* and *Utah Construction* decisions strongly support the application of issue and claim preclusion doctrines to ITC patent decisions.[105] The argument for giving ITC patent

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99. 19 U.S.C. § 1337(c) (1988).

100. S. REP. NO. 1298, 93d Cong., 2d Sess. 193, 196, *reprinted in* 1974 U.S. CODE CONG. & ADMIN. NEWS 7186, 7329.

101. Prior to 1982, the Court of Customs and Patent Appeals (CCPA) had jurisdiction to review ITC determinations. However, the CCPA did not have jurisdiction to hear appeals from district court decisions in patent cases. These decisions were reviewed by each of the several circuit courts of appeals. SENATE COMM. ON THE JUDICIARY, FEDERAL COURTS IMPROVEMENT ACT OF 1982, S. REP. NO. 275, 97th Cong., 2d Sess., *reprinted in* 1982 U.S. CODE CONG. & ADMIN. NEWS 11.

102. 19 U.S.C. § 1337(c).

103. 28 U.S.C. §§ 1295(a), 1338(a) (1988).

104. 19 U.S.C. § 1337(a)(1)(B)(i).

105. *See also* Pierce v. Underwood, 487 U.S. 552, 566-68 (1988) (legislative history is not controlling); Burlington N.R.R. v. Oklahoma Tax Comm'n, 481 U.S. 454, 461 (1987) (statutory language is conclusive).

decisions preclusive effect is bolstered by Congressional testimony in conjunction with the passage of the Trade Reform Act of 1974. Testimony in the legislative history indicated that ITC patent findings could have the same influence that a state court's patent opinion on validity has in a federal court.[106] Allowing preclusive effect for ITC patent decisions in federal courts is consistent with this testimony because state court decisions on patent validity are routinely given preclusive effect in the federal district courts.[107]

D. Possible Solutions

The problems exemplified in the *Convertible Rowing* case could be solved in two ways. First, courts could give preclusive effect to judicially affirmed ITC patent-validity decisions. Alternatively, Congress could pass legislation to merge the ITC's jurisdiction over unfair importation actions with the district courts' jurisdiction over patent actions.

1. Grant preclusive effect to ITC decisions on patent issues

Under current jurisdictional statutes governing patent decisions, granting preclusive effect to ITC patent decisions would be appropriate. Moreover, giving these decisions preclusive effect would alleviate judicial waste and the harms encountered by the parties as a result of litigating identical issues in multiple forums.

While this solution is feasible and resolves the harm caused by dual-track litigation, the benefits of reducing multiple litigation must be balanced against potential prejudicial effects. First, ITC proceedings are not formally governed by the Federal Rules of Civil Procedure.[108] Second, the speed required of an ITC proceeding may preclude one of the parties

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106. In hearings before the House Ways and Means Committee, a witness gave a statement regarding patent validity decisions of the ITC, stating that "[a] Tariff Commission (ITC) report or finding on validity should have no more influence in a federal district court . . . than presently a state court's opinion on validity would have on a federal district court." *Trade Reform: Hearings Before the Committee On Ways and Means, House of Representatives*, 93d Cong., 1st Sess. on H.R. 6767, The Trade Reform Act of 1973 1590 (1973).

107. *See, e.g.*, MGA, Inc. v. General Motors Corp., 827 F.2d 729, 735 (Fed Cir. 1987), *cert. denied*, 484 U.S. 1009 (1988) (relitigation of the issue of patent infringement is precluded by a prior state court judgment of noninfringement).

108. However, the ITC's procedures are very similar to the Federal Rules of Civil Procedure. The procedures are set forth in 19 C.F.R. §§ 210.1 to 210.71.

from having the opportunity to fully and fairly litigate the issues. In fact, some commentators have argued that an ITC proceeding is not an even playing field and "stacks the deck" against the respondent.[109] If this is true, giving preclusive effect to ITC decisions would not be fair to the respondent, especially since the respondent does not choose the forum.

In light of these concerns, another possible solution would be to give ITC decisions preclusive effect against the complainant but not against the respondent. Precluding the complainant from dual-track litigation would greatly reduce the duplication of effort and waste because the complainant would be bound by his choice of forum. Also, permitting only one chance to raise the issue would dispose of the concept of a "test run" in the ITC and would thus force the complainant to choose carefully the forum for litigation. This approach would strike a better balance than currently exists regarding the potential risks facing complainants and respondents in ITC proceedings.

2. Change the relationship between the ITC and the district courts

International pressure may cause Congress to legislate a solution to the dual-track litigation problems caused by the overlapping jurisdiction of the ITC and the federal district courts. The fact that a complainant in a 1337 proceeding can bring proceedings in both the federal courts and the ITC impacts the General Agreement on Tariffs and Trade (GATT). The European Economic Community (EEC) has informed the contracting parties to GATT that the overlapping jurisdiction between the ITC and the federal district courts causes waste and inconvenience. The EEC alleges that imported products, which are administered by section 1337 unfair trade proceedings, receive less favorable treatment than U.S. domestic products in domestic actions. Its complaint caused the GATT council to form a panel to consider the problem and its possible solutions. The panel has suggested several possible solutions, which in turn have been evaluated and adopted by the American Bar Association (ABA) Section of Patent, Trademark and Copyright Law.[110]

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109. Madsen, *Federal Practice and Procedure*, 1989, A.B.A. SECTION PATENT, TRADEMARK AND COPYRIGHT LAW REPORT 188, 194. *See generally* Lupo, *supra* note 3.

110. Bradley, *GATT Panel Report on Section 1337*, 1990, A.B.A. SECTION PATENT,

The ABA Section of Patent, Trademark and Copyright Law has selected three of the panel's options as being both responsive to GATT requirements and consistent with the best interests of the United States patent and judicial systems. The three selected options include: (1) removal or transfer of section 1337 unfair trade proceedings to a district court at respondent's option; (2) modification of 19 U.S.C. § 1337 so as to provide only preliminary (temporary) relief; and (3) modification of section 1337 so that counterclaims and damages may be determined by a district court. The ABA committee prefers option number three because it would address the deficiencies identified by the GATT panel while entailing minimal changes in the current ITC and district court systems.[111]

Option number one would also resolve the problem efficiently because it would allow the respondent, who foresees a potential for multiple proceedings, to preempt this eventuality. A respondent would have the power to avoid the protracted litigation and the waste that now occurs. Thus, either party could avoid the harms of overlapping jurisdiction; the respondent could remove the patent issues if he anticipated a harm, and the complainant could exercise his choice of forum at the inception of the litigation.

V. CONCLUSION

The "test run" strategy currently used in the ITC results in great waste of judicial resources and imposes unreasonable burdens on the parties. The potential for harm demands that the courts or Congress take action to correct the currently deficient rule of law. The courts could alleviate much of the problem by granting preclusive effect to judicially affirmed ITC decisions on patent matters. Granting such preclusive effect will lessen the burden on both the courts and litigants. However, it may be international pressure that provides the impetus to Congress to take action and solve this anomaly in the United States court system.

Hal D. Baird

TRADEMARK AND COPYRIGHT LAW REPORT 235.
111. *Id.*