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CLIENT ALERT

Federal Circuit's *Lashify* Opinion Significantly Expands Cognizable Investments Under the ITC's Domestic Industry "Economic Prong" Requirement

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In a precedential opinion issued yesterday and authored by Judge Taranto, the Federal Circuit reversed the U.S. International Trade Commission's (ITC or the Commission) long-standing practice of excluding investments in sales, marketing, warehousing, quality control, and distribution from consideration under the economic prong of the domestic industry requirement. In so doing, the Federal Circuit has vastly expanded the types of investments that can be asserted and, thus, the nature and type of complainants who can bring cases before the ITC.

To file an ITC complaint under Section 337 of the Tariff Act of 1930, among other requirements, a complainant must demonstrate in the United States "significant investment in plant and equipment," "significant employment of labor or capital," or "substantial investment in . . . exploitation, including engineering, research and development, or licensing." 19 U.S.C. § 1337(a)(3)(A)-(C). Those investments must be directed to the complainant's or its licensee's products alleged to practice the intellectual property right asserted. For decades, the ITC interpreted the legislative history of the statute as requiring exclusion of investments in sales and marketing as no different than those of a "mere importer." This meant that complainants who source their products abroad could not bring an action at the ITC if their only significant domestic activity involved sales and marketing, as opposed to other qualifying investments like research, development, prototyping, and assembly. The ITC also excluded domestic investments in warehousing, quality control, and distribution absent some other qualifying domestic activity, such as manufacturing. That practice has historically restricted the types of investments that complainants could assert and, no doubt, discouraged certain complainants from filing at the ITC altogether. Those concerns are now eliminated.

The appellant at issue, Lashify, Inc., filed its ITC complaint (Inv. No. 337-TA-1226) in 2020, asserting infringement of one utility patent and two design patents by various eyelash extensions and related accessories of numerous respondents. Lashify sourced its domestic industry products from abroad and relied upon various domestic investments in sales, marketing, warehousing, quality control, and distribution activities for the imported products. Consistent with prior decisions, the Administrative Law Judge (ALJ) excluded those investments, thus finding that Lashify failed to satisfy the economic prong, which the Commission affirmed.

In reversing the ALJ and Commissioners, the Federal Circuit found that the plain language of Section 337 does not exclude investments in sales, marketing, warehousing, quality control, and distribution. Section 1337(a)(3)(A)-(B) simply requires investments in plant, equipment, labor, or capital, without regard to the type of activity or "enterprise function" those investments are directed toward. The court then distinguished sub-prongs (A) and (B) from sub-

prong (C), which imposes a functional requirement that the investments be directed to “exploitation,” such as engineering, research and development, and licensing. Thus, the court reasoned that the plain language of the statute does not foreclose investments in sales and marketing-type expenses.

The Federal Circuit also noted the ITC’s reliance on the legislative history of the statute in support of the ITC’s position. Taking a closer look at that history, the Federal Circuit concluded that the ITC’s interpretation was simply incorrect.

The opinion also touched on the meaning of “capital” under sub-prong (B) as “showing employment of a large enough stock of accumulated goods.” Given the context of that language in the discussion around warehousing activities, the opinion presumably also opens the door to reliance on a complainant’s U.S. stock of inventory of domestic industry products as counting toward the economic prong.

These developments indicate that potential complainants who produce their products abroad will be pleased with the Federal Circuit’s opinion this week and will be watching how the ITC treats the investments on remand.

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