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ITC Wind Turbine Ruling Makes Green Policy Waves

By **Jessica Dye**

Law360, New York (February 05, 2010) -- With the Obama administration aiming to jump-start the economy and environmental efforts by boosting U.S. renewable energy production, an ongoing patent dispute in U.S. International Trade Commission over imported wind turbines could shake up the U.S. wind industry landscape, according to experts.

The ITC handed Mitsubishi Heavy Industries Ltd. a win on Jan. 8 by terminating a Section 337 complaint filed against it by General Electric Co. for claims on several patents covering wind turbine technology, reversing an earlier finding by an ITC administrative law judge that Mitsubishi had indeed infringed GE's intellectual property.

The January ruling clears the path for Mitsubishi to import certain wind turbine components into the U.S., where at least two companies and the U.S. government — through American Recovery and Reinvestment Act stimulus funds — have invested hundreds of millions of dollars in infrastructure for wind farm developments using its turbines to meet the demand for wind power created by the White House's goal of doubling renewable energy output over the next three years.

But GE also has a big stake. With the largest single share of the U.S. market for wind technology — 43 percent in 2008, according to the American Wind Energy Association — and more than a dozen companies licensing GE wind turbine technology, GE has taken action in both the ITC and federal district court to stop Mitsubishi from importing products that it claims are ripping off three patents: U.S. Patent Numbers 5,083,039; 7,321,221; and 6,921,985.

According to GE Energy senior intellectual property counsel Frank Landgraff, GE is planning to continue the fight, both in an appeal to the U.S. Court of Appeals for the Federal Circuit and in a pending suit in the U.S. District Court for the Southern District of Texas.

The fight has drawn considerable political attention, as lawmakers working on building a job-boosting green energy sector in the U.S urged commissioners to pay heed to the ruling's potential impact on the domestic wind sector.

With the amount of consolidation and patent trading going on among major energy and technology companies — GE, for instance, acquired the '039 patent from an Enron Corp. unit — and the amount of clean technology manufacturing occurring overseas, it's likely that the final outcome of the GE-Mitsubishi ITC case could be a taste of what's to come in the increasingly high-stakes renewable energy sector, according to Lawrence Kass, a partner at Milbank Tweed Hadley & McCloy LLP.

“Important patents will end up in the hands of big players, and you'll have more litigation of these patents, whether it's in the ITC or district court, whether it's importation or just a vanilla infringement suit,” Kass said. “I think this case is a good one to look at as a possible example of litigation to come in this industry.”

The ITC Case

Despite the political and economic stakes, the commission's final ruling stuck to a technical examination of the underlying claims, concluding that the ALJ had erred in certain claim constructions.

The ITC launched its investigation into certain Mitsubishi wind turbine components in March 2008, based on a GE Section 337 complaint. In August, the ALJ issued a final initial determination finding that Mitsubishi had infringed on one claim apiece for the '039 and '985 patents, but finding no violation on three claims asserted on the '221 patent.

GE, Mitsubishi and the ITC investigative attorney petitioned for review of the ALJ final initial determination. On Oct. 8, the commission announced that it would formally review the ALJ's finding, and requested a briefing on the issues on review — specifically looking for more information on the ALJ's recommended remedy, which suggested barring the allegedly infringing Mitsubishi products.

After extensive review, ITC commissioners announced on Jan. 8 that the investigation had ended with a finding of no Section 337 violation by Mitsubishi.

In their final ruling, the ITC found that patent '039 had not been infringed, either literally or under the doctrine of equivalence, and that there was no domestic industry because GE

components did not practice the claims in the patent-in-suit.

Commissioners took issue with the ALJ's construction of several terms in the '039 claim, generally found to cover an older generation of wind turbines, despite the fact that Mitsubishi and GE turbines now both use a different type of generator technology, they said.

Further, commissioners read the '039 claim language to be interpreted as a means-plus-function claim term, in contradiction to the basis for the ALJ's '039 claim findings.

On the '221 patent, the ITC agreed with Mitsubishi's arguments and found no literal infringement or infringement under the doctrine of equivalence, as well as no domestic industry, because no GE wind turbines practiced the '221 patent.

The ITC disagreed with Mitsubishi as to whether GE had standing to bring claims on the '985 patent. Mitusbishi had argued against standing, on the grounds that a co-inventor of the patent had not been named. The ITC disagreed, ruling that it had no authority to correct inventorship, in accordance with the ALJ's findings.

Nevertheless, commissioners disputed the ALJ's construction of the '985 claims, and, based on its new reading, determined that GE turbines were not covered under the claims.

The commissioner ruling did not invalidate the GE patents, per Mitsubishi's request, however.

Despite the ITC's requested briefing on public interest and remedy, their final ruling “really just came down to claim interpretation on all three patents,” said Charles Schill, a partner at Steptoe & Johnson LLP, counsel for Mitsubishi.

“Basically, the commission adopted the claim interpretation that Mitsubishi presented and rejected the claim interpretation that the ALJ had found and that GE had proffered,” Schill said. “On the Mitsubishi side, we thought the [ALJ's] claim interpretation had not been done accurately — the most obvious one was the in the '039 patent, the ALJ just didn't properly interpret the means-plus-function on the claim.”

Landgraff offered a different view, saying the company was “highly disappointed” with the ruling.

“Our initial reading of the commission decision indicates errors that provide grounds for an appeal,” Landgraff said, although he declined to elaborate on what those might be.

Political Intrigue

When word got out about the commission's review, lawmakers sent a flurry of letters to ITC commissioners, voicing concerns about the potential impact either affirmation or reversal could have on their constituents, as well as broader climate change, economic and renewable energy policy.

At least 17 members of Congress and Arkansas Gov. Mike Beebe weighed in on the case — unusual for an ITC case, Schill said.

Mitsubishi's support mobilized early, with Arkansas' two Democratic U.S. senators, Blanche Lincoln and Mark Pryor, telling ITC commissioners that “promoting a diversity of technologies in the wind energy sector” was critical to meeting federal wind energy goals, and that “a combination of design innovations” was necessary

Beebe made a more explicit pitch, noting that Mitsubishi had announced plans to construct a new wind turbine facility in Fort Smith, Arkansas.

Those jobs, he warned, “depend upon the resolution of the Section 337 case currently under review by the commission ... an impermissably broad reading of the patents in this case would have significant adverse effects on employment and wind energy development in my state and the nation.”

GE had its own supporters among Congress. Sen. Bill Nelson, D-Fla., whose state is home to a GE renewable energy facility, and Sens. Charles Schumer and Kirsten Gillibrand, both Democrats from New York — the location of GE Wind Energy's global headquarters — all urged the ITC to apply the facts to the ALJ review “fairly” while keeping in mind the importance of strong IP protection to the developing renewable energy industry.

Georgia's two Republican senators, Saxby Chambliss and Johnny Isakson, cautioned in a brief letter that the “dispute may have become politicized.”

Sen. Lindsey Graham, R-S.C., who is currently crafting a bipartisan climate change and renewable energy bill in the Senate with Sens. John Kerry, D-Mass., and Joe Lieberman, I-Conn., sent a letter saying the GE-Mitsubishi outcome was of “vital importance for our nation's ability to generate energy from clean sources and attract investment,” urging the commissioners to uphold the ALJ ruling.

Counsel for both Mitsubishi and GE acknowledged they had alerted some members of

Congress to the case — a move that may have ultimately ratcheted up pressure on the ITC commissioners, according to Kass.

“A lot of stimulus money is being made available for domestic renewable energy to spur the U.S. economy, and one might think that this would favor GE, because the ITC's very purpose is to protect domestic industries from unfair foreign competition,” Kass said.

But a number of the congressional letters urged the ITC to weigh the merits carefully because of Mitsubishi's designs in Arkansas, he added.

“I think it's reasonable to speculate that even if the commission opinion doesn't specifically mention those letters, or the heavy public policy overtones, economic implications and publicity in general, all this attention may have motivated the commission to undertake a particularly critical review,” Kass said.

Industry Implications

With billions of federal stimulus funds at stake, as well as the chance for both companies to stake a more prominent spot in the burgeoning U.S. wind industry, the final outcome of the ITC dispute could affect both companies' market share, experts said.

Most immediately, a favorable finding for Mitsubishi will allow the company to fulfill hundreds of millions of dollars in wind farm development contracts it holds with Iberdrola SA and Edison Mission Group, a subsidiary of Edison International, Schill said.

A favorable ruling will also position Mitsubishi to give GE a run for its money as leading U.S. wind turbine component supplier, he added.

“If you look at just the percentage of installed capacity, Mitsubishi isn't a large player to date,” Schill said, estimating the company's portion of U.S. market share to be somewhere around 10 percent. “But we think they are a large player in the future — they're one of the few GE-sized companies that's in the market to sell these things...a lot of the other wind manufacturers are small companies that may or may not have the resources or the technology, but Mitsubishi certainly does.”

On the other side, GE remains concerned about how the potential outcome could affect its licensing agreements on the turbines using the patents in question, which it currently has with more than a dozen U.S. companies, Landgraff said.

“GE agrees with many congressional members that strong protection of IP rights is the foundation for driving both innovation and investment in high technology industries generally, and the associated creation of high-value jobs,” he said. “The wind turbine industry is a good example of a high-tech industry where this applies.”

Even if the current patent challenges fail, Landgraff indicated there could be additional components in Mitsubishi turbines that infringe on other GE wind energy patents.

Despite GE's concerns, Kass said he saw a “silver lining” for the company in how the ITC declined to rule on Mitsubishi's challenge to the validity of the GE patents.

"I don't think this ruling will substantially undermine most of GE's licenses,” he said. “In fact, the converse might be true. GE survived a challenge to the validity of its patents. The patents that survive challenges of validity are considered stronger.”