

Client Alert

May 2020

Be Careful What You Consent To: At The ITC, An Easy Way Out Has Consequences

Section 337 investigations at the International Trade Commission (ITC or Commission) can be among the most expensive intellectual property disputes. And the risk of an exclusion order, no matter how low, is always there.

For some respondent companies—even if they have credible defenses to a complainant's allegations—the potential benefit of contesting the investigation to an eventual win on the merits may be outweighed by the expense and risk of litigation, especially where the accused product has low sales, or there is an easy design-around to avoid the alleged infringement. In that situation, a consent order is a practical tool that a respondent may use to extract itself from an ITC investigation without much difficulty and without having to enter a settlement agreement. However, a recent decision by the Commission shows that using a consent order to exit an ITC investigation is not without consequence.

An ITC consent order is essentially an agreement to cease the complained of conduct (e.g., importation and sale of the allegedly infringing product) and in exchange the respondent is relieved of the expense of litigation.¹ The Federal Circuit has even held that consent orders are interpreted as contracts. *DeLorme Publ'g Co. v. Int'l Trade Comm'n*, 805 F.3d 1328, 1331 (Fed. Cir. 2015).

A respondent may unilaterally enter a consent order, over the complainant's objection, so long as the order and accompanying motion comply with ITC rules. For example, all ITC consent orders are required to recite a number of specific statements, the most prominent being:

- A statement identifying the complainant, respondent, the subject articles, and the allegations of infringement;
- A statement that the respondent will not sell for importation, import, or sell after importation the subject articles except by consent, license, or settlement agreement with the complainant;
- A statement that the respondent will not seek judicial review or otherwise challenge or contest the validity of the consent order;
- A statement that when a relevant IP right expires the consent order will become null and void as to that right; and
- A statement that if a relevant IP right is held invalid or unenforceable or a subject article is found not to infringe in a final decision not subject to appeal, the consent order will become null and void as to that right or article.

19 C.F.R. § 210.21(c). Once the ITC approves a proposed consent order, the respondent will be terminated from the investigation. If a company subsequently fails to comply with its obligations under a consent order, it is subject to enforcement proceedings and imposition of penalties by the ITC.

In Investigation No. 337-TA-1123², respondent Fujian was accused of violating section 337 through its manufacture, sale, and importation of carburetor products that allegedly infringed two US patents. Complainant Walbro made similar allegations against other respondents in the same investigation.

¹ Though the complainant may still pursue past damages in district court.

² *Certain Carburetors and Products Containing such Carburetors*.

Just over a month after institution of the investigation, Fujian moved to terminate based on a consent order. Over the opposition of Walbro but with the support of the Office of Unfair Import Investigations (OUII), the administrative law judge (ALJ) granted the motion. The Commission then issued the consent order and terminated Fujian from the investigation.

The investigation continued against other respondents. Approximately one year later, the ALJ found Walbro failed to satisfy the economic prong of the ITC's domestic industry requirement. The Commission affirmed and terminated the investigation as to the remaining respondents with a finding of no violation. Walbro did not appeal.

As a result, Fujian subsequently filed a petition at the ITC seeking rescission of the consent order, which was opposed by both Walbro and OUII.

The Commission denied Fujian's petition for rescission.³ ***Fujian thus remains barred from importing and selling its accused carburetors (subject to the consent order) while respondents who continued to contest the investigation are now free to import their carburetors.***

While the Commission did not issue a full opinion, it stated in its notice that Fujian failed to show that a determination that complainant lacks a domestic industry is a change in the conditions of law or fact that led to the consent order, nor did Fujian show that the public interest required rescission of the consent order. The Commission also stated that Fujian did not cite any language in the consent order that it could be rescinded based on a later finding of no domestic industry.

The situation that befell Fujian illustrates a subtle downside to entering into a consent order. The ITC rules explicitly provide for a consent order to no longer be effective even before expiration of the IP right if the IP right is invalidated or is found unenforceable, or if the subject article is found not to infringe⁴. However, the ITC rules provide no such explicit escape hatch in the event that the complainant's case fails for other reasons. While in this investigation it was a failure to satisfy the economic prong of domestic industry, it is possible to envision an investigation terminated for failure to satisfy the technical prong of domestic industry or for lack of standing where a respondent who entered into a consent order would be similarly disadvantaged.

Unfortunately, there is no apparent way to guard against this turn of events before filing a consent order. While the Commission's notice references Fujian's failure to cite any supporting language in the consent order, the ITC rules actually preclude including such language in a consent order because they state: "The Commission will not issue consent orders with terms beyond those provided for in this section...." Rule 210.21(c)(4).

In a multi-respondent investigation like this one, the likely best approach for a respondent considering entering into a consent order is to be cognizant of how the complainant's case may fail against any remaining respondents and the difficulty in getting out of the consent order if the complainant does stumble. Depending on the circumstances, the expense of continued litigation may be less costly than voluntarily excluding your company's own products from the US market.

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³ Comm'n Notice (Feb. 26, 2020).

⁴ For example, in a district court proceeding for past damages.