Ep. 35: IP Disputes at the ITC: What You Need to Know

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Jose Garriga: Hello, and welcome to *OnAir with Akin Gump*. I'm your host, Jose Garriga.

The United States International Trade Commission is a high-profile, respected forum for the adjudication of intellectual property and trade disputes. One area of its work that is critical to cross-border business involves investigations it conducts under section 337 of the Tariff Act of 1930. In its own words, the ITC investigates and makes determinations in proceedings involving imports claimed to injure a domestic industry or violate U.S. intellectual property rights.

In this episode, Akin Gump intellectual property partners Cono Carrano and David Vondle will be discussing the role of the ITC, recent matters that have made headlines, the impact of COVID-19 on its proceedings, and more.

Welcome to the podcast.

Cono, David, thank you both for making the time to appear on the show today. This is an interesting topic with a lot of ongoing applications and significance for business.

So, just to set the stage for listeners, Cono, could you outline what it is exactly that Section 337 covers and how it falls within the purview of the International Trade Commission?

Cono Carrano: Thank you. The ITC continues to be a very attractive forum for intellectual property holders. 337 makes it unlawful to import or sell articles into the United States that involve unfair methods of competition or unfair acts. For example, unfair acts include patent, trademark or copyright infringement, and unfair competition includes violations of antitrust, trade secret misappropriation, trade dress in common law, trademark infringement. The majority of investigations involve patent infringement, however, and the remedy that the ITC can provide is an exclusion order, basically keeping infringing products out of the United States, and cease and desist orders with respect to products that come in, or are imported into, the United States.

David Vondle: Thanks for having us on the podcast today, Jose. So, just to put a little bit of flesh on what Cono was talking about, more than 90 percent of all the complaints filed under Section 337 at the ITC are intellectual property-based complaints—that would include patents, trademarks and copyrights. And about 10 percent of the complaints filed cover those other forms of unfair competition, like the trade secret misappropriation or antitrust or false advertising or interference with business relationships, things of that nature. And on the remedy side, as Cono mentioned too, there are very powerful remedies at the ITC that are essentially not available in district court under the current legal framework.

The primary remedy at the ITC is called an exclusion order. And there are two forms of that we'll talk about in a second. But the exclusion order prevents products that are found to be either infringing IP or are the result of unfair methods of competition; they are excluded from entering the United States. So, the Customs and Border Patrol will literally stop the products from entering the United States. There's also another remedy called a cease-and-desist order that affects products that are already in the United States that have been imported. And that's an order that will prevent the further distribution or sale of those products inside the United States.

Jose Garriga: Great, thanks. So, let's drill down a bit, as you all have laid out a very interesting framework here. Both of you have written on what's called “standard essential patents” with respect to the ITC, Cono, could you describe exactly for listeners, what standard essential patents are, and what they mean in this context?

Cono Carrano: A standard essential patent or an SEP, is a patent that claims an invention that must be used to comply with an industry standard. We're all familiar with some standards, for example, LTE for cellular networks and JPEGs for image compression. Standards come about because the industry has manufacturers or vendors, providers of different products, and many times those products have to work with each other or be operable. So, standards developed as a way of ensuring that the products can work together well.

Typically, a standards body or standards organization gets entities involved for creating the standards, and those entities to the extent they have IP, particularly patents, are supposed to disclose what patents they have and also agree that if their technology or their patents are used for the standard, that they will license those patents, if they're essential, on fair, reasonable and nondiscriminatory terms, or what the industry calls FRAND terms.

So, that's a little background as to what an SEP is and how they come about and why standards are created in various industries. With respect to the enforcement of SEPs, that has been going on for quite a number of years, decades for the most part, but there've been some recent developments in the last seven years in particular that have highlighted SEPs and their enforcement in the industries.

Recently, in December 2019, the Department of Justice and the U.S. Patent Office issued a new joint policy, which states that patent owners who have FRAND obligations are not precluded from seeking exclusionary remedies, in essence, a remedy in the ITC of an exclusion order or a cease-and-desist order. That's a material change from the DOJ’s and the Patent Office’s earlier 2013 joint statement that said that issuing an exclusion order for SEPs may be contrary to public policy and public interests.

And, indeed, there were ramifications for that statement in 2013. For example, in the ITC investigation [*337-TA-794*], the ITC had found that Samsung's SEP patent was infringed by Apple, and the ITC issued an exclusion order on Apple's products. But in view of the

2013 policy from the DOJ and the Patent Office, the President, President Obama, through the U.S. Trade Representative, disallowed that exclusion order because their view was that it was against public policy. But a lot has changed since 2013, particularly in view of the new policy from the DOJ and the Patent Office.

So, we continue to see activity in the ITC with respect to SEP patents. And recently, in investigation [*337-TA-1089*], the administrative law judge found one of the complainant's patents to be infringed, found that patent to be essential to the JEDEC standard, another standard, and recommended an exclusion order. That went up to the Commission at the ITC, and the Commission overturned the findings and reversed the ruling, largely on the facts of the case, not on a policy issue of whether or not there should be exclusion orders with respect to standard essential patents.

So, on that particular case, the ALJ recommended an exclusion order with a patent that the ALJ felt was infringed or found that was infringed and recommended an exclusion order, so, consistent with the current policy of the DOJ and the Patent Office. As it stands right now, it looks like standard essential patent enforcement at the ITC is viable and likely to be supported by the policy statements of the DOJ and U.S. Patent Office. So, this is important for a lot of reasons because both complainants, patent owners and respondents or defendants will likely find themselves before the ITC with standard essential patents, particularly in the technical spaces of cellular technology, for example, with the rollout of 5G. There's thousands of standard essential patents associated with 5G, with the Internet of Things, likely to lead to more litigation and enforcement with respect to standard patents in that space.

Complainants or patent owners should be aware that the ITC is a viable forum and a very attractive forum for bringing their patent disputes up and have adjudicated, particularly in view of the December 2019 DOJ and U.S. Patent Office policy. Respondents need to be also aware of this development and be prepared to develop both affirmative defenses, such as the FRAND agreement is enforceable and that the assertive patents are essential and, therefore, they'd be obligated to give FRAND rates on policy decisions, meaning without warrants and exclusion order.

Jose Garriga: Thank you. Taking what Cono said, and maybe looking at it a little bit more closely even, David, what makes the ITC a desirable venue? Cono laid out well the whole idea of what it does and how it is that cases are examined and the types of cases, particularly regarding standard essential patents, but why is it desirable? Why would people want to seek redress there regarding these trade grievances on SEP matters involving international competitors?

David Vondle: That's a wonderful question. Jose. The ITC is a federal agency. It's an independent, nonpartisan, quasijudicial federal agency that fulfills a number of trade-related mandates. And it's a forum specifically that adjudicates IP disputes, such as the patents, trademarks, copyrights and other forms of unfair competition. But one of the key things about Section 337 proceedings at the ITC is the speed by which the ITC issues a decision, typically by statute, actually. The ITC has to complete each investigation at the earliest practicable time. Now, the ITC has looked at this and said, on average, that's going to be between 14 to 16 months after institution of the investigation.

So, it's very common for the ITC, the full Commission, to issue an opinion on the merits 16 to 17 months after the filing of a complaint. For comparison, in district court, it may take anywhere from two-and-a-half to three years or even longer to get to a trial.

The ITC does provide an expedient venue to try to resolve IP disputes. That's going to be true for all IP disputes, not just SEPs. But for SEPs, they may, because of some of the obligations that Cono mentioned, the requirement they may have to offer license terms under fair, reasonable, and nondiscriminatory terms, that they have to... This may be a way to resolve issues faster than if they entered into license negotiations. Or if they had entered license negotiations, and they failed, they would have to go to district court and then may have to wait several years before they actually get to trial. Whereas, in the ITC, it's a very good chance you're going to get to trial within a year, and you'll get a final decision from the ITC within 16 to 17 months after the complaint is filed. So, it does move very fast. In addition, we mention, really, the exclusive remedies at the ITC aren't really found in district court.

They are available to some extent. The injunctions are available in district court, but they're very challenging to get. In the ITC, that is the default remedy: these exclusion orders and the cease-and-desist order. There's no opportunity to get money damages in the ITC, but there is an opportunity to have this very powerful injunctive threat that a lot of times may not be available if they were to pursue something in the district court, which does make this, as Cono alluded to, the ITC a very viable venue for litigation of SEP disputes.

Jose Garriga: You mention not being able to get money awards through the ITC. Are there any other disadvantages to seeking redress through the ITC compared to doing so in district court?

David Vondle: Sure. There are a few things that are unique to the ITC that are not going to be requirements in district court. For example, the ITC has a “domestic industry” requirement, and that means there must be an industry in the United States directed to the products that practice the claims. That comes in two different flavors. There's an economic prong that involves and looks at the investments, the complainant, or the plaintiff in ITC-speak, has made in the United States. And that could be things like whether they've invested in plants, equipment, labor, capital or exploitation of the IP, such as R&D or licensing, things like that. They do look at, not just the economic investment, but also a technical investment. So, they want to see if the IP, so when we’re talking about patents now, if there are certain products that practice the patent in the United States.

So, domestic industry…and it's actually a difficult burden to meet in many cases because a lot of times, you'll see companies who may not necessarily manufacture or produce products. They may try to file a case in the ITC, and then they may run afoul of the domestic industry requirement, and the ITC may find that their investments, to the extent there are any, do not rise to the level of a minimum standard that's required for the domestic industry. So, that is one significant hurdle that a potential complainant would have to consider: that there would be a domestic industry. A second possible disadvantage is something called “the public interest.” And this came up in the Samsung and Apple matter that Cono mentioned earlier. What happened there was the United States Trade Representative overturned the ITC’s exclusion order in that case. And that was, essentially, based on the public interest, and the public interest, really it's a four-factor test. And they look at things like the public health and welfare, competitive conditions in the U.S. economy, the production of competitive products in the U.S. and the U.S. consumer. So, the public interest is not always an issue, but, in certain cases, that may involve standard essential patents, it can become an issue. And it did become an issue in the Samsung-Apple case, because that was, essentially, the basis by which the United States Trade Representative overturned that exclusion order, because the

Trade Representative found that there was public interest in not having an exclusion order and in allowing certain products to continue to be imported into the United States.

Jose Garriga: Thank you. That's interesting. So if we're looking at the two venues, Cono, how would you describe how and why companies would want to file for ITC proceedings in parallel with district court proceedings?

Cono Carrano: One thing I'd like to add about the differences between the two forums, which we didn't touch upon yet is that, many times, defendants or respondents will file for *inter partes* review of the asserted patent before the Patent Office. And, typically, what will happen is, if those reviews get instituted in the district court, district courts have a propensity to stay the district court litigation pending completion of the *inter partes* review in the Patent Office.

And if the district court tends to stay, meaning that that case will not move forward for probably 12 to 18 months while the proceeding's going before the Patent Office and any corresponding appeal. So, that's a disadvantage for the district court for the SEP holder or patent holder because they won't have their day in court for a delayed period of time. At the ITC, however, even if the Patent Office does institute an IPR proceeding, the ITC has never stayed an ITC investigation pending review before the Patent Office. There's been corner cases where everyone's agreed to stay the investigation, and the facts are very extreme, but, on the average case, there's never been a stay of the ITC pending the IPR proceeding, which is a huge advantage for the patent holder or SEP holder, because they'll get their day in court, as David pointed out, when they'll have a decision roughly about 17 months after filing the complaint.

So, that's another difference between the district courts and the ITC. With respect to why a patent holder would file in the district court in parallel, at the very least what's typically done is the patent holder files the ITC complaint and the same case, in essence, in district court and largely because of monetary damages. As we've noted, ITC doesn't grant monetary damages so you have to go to district court to get that if you can't settle, or you don't reach an agreement between the parties via the ITC case.

Monetary damages are the only place a patent holder can go to, and that's a reason for filing a parallel case. That parallel case, many times, statutorily, is stayed pending the ITC investigation if they are the same issues and largely the same patents and same products, but there is an option for the patent holder to file a different case in the district court if they want that case to go forward in parallel and not be stayed. If they file different patents or they accuse different products, the patent holder can likely continue in parallel, both the ITC case and the district court case, if that's a tactical advantage.

The typical cases you'll see a parallel case filed in district court that's stayed. The less typical, but not unseen, this happens quite often also, the patent holder will file basically a third case, different patents or accuse different products, that will continue on in parallel with the ITC case largely for probably tactical reasons being leveraged.

David Vondle: And Cono raises a good point there about the parallel proceedings going forward. Let's say, for example, there is an ITC complaint that's filed and a district court case that is stayed because largely the same issues or patents or products are at issue. If the ITC case goes forward, and let's assume that the complainant is unsuccessful in the ITC, meaning that the respondents win, the complainant can attempt to obtain a different result in district court after the completion of the ITC case.

The reason for that is there's no, what's called in the legal world res judicata in patent cases at the ITC. This means that even though the ITC has adjudicated the exact same issues, the complainant can then pursue the same case and issues in district court and try to obtain a different result. So it's, I don't want to call it two bites at the apple, but there is an opportunity for the complainant to try to obtain a different result in district court and obtain money damages, if, in the ITC, the complainant was ultimately unsuccessful and was unable to obtain injunctive relief in the form of an exclusion order, cease-and-desist order.

Jose Garriga: Thank you, David. A reminder, listeners, we're here today with Akin Gump intellectual property partners Cono Carrano, and David Vondle discussing the International Trade Commission, its role and work.

So, let's turn to a, call it a case study if you will. China appears with some regularity as a respondent in any list of investigations being conducted by the ITC. So, David, how effective is the ITC as a forum to file complaints against Chinese entities, as compared to, say, we've been discussing district court?

David Vondle: Great question, Jose. The ITC can be an extremely effective forum against Chinese entities. There are a number of reasons for this. The first one I'll discuss is, it's a jurisdictional issue. In district court, there may not be an opportunity or an ability to show that there is jurisdiction over a Chinese company in federal district court for a number of reasons. The Chinese company may not have a presence in the U.S., the Chinese company may not do any business in the U.S., but there may be some issues with obtaining jurisdiction over the Chinese company itself.

The ITC, by contrast, has jurisdiction over the products that are actually imported into the United States. And, therefore, the ITC has jurisdiction over the products themselves, and say it's irrelevant, but the Chinese companies, where they're located, you know, is not at issue when it comes to jurisdictional issues in the ITC.

What can happen is the Chinese companies can be named as respondents in the ITC, but the jurisdictional issues are directed primarily to the products that are imported into the United States. So, as long as there's a product that's continued to be imported into the United States, the ITC will have jurisdiction over that product, which is a big difference from district court, where even if the product is imported to the United States, the district court may not be able to exercise jurisdiction over a Chinese company. A second part is—and this is more of a procedural issue, and it's also an efficiency issue—in the ITC, it is possible to file a complaint that names every company that's involved in the industry that may be involved in, for example, the importation of an infringing product. So the named respondents can include not just the importer or the brand, but everyone in its supply chain from manufacturers of components in the imported product all the way down to the companies that distribute the product throughout the United States.

So, the ability to name all of those potential respondents in one matter is a significant efficiency issue because in district court, it's very likely you're going to have to name all of these companies in separate cases throughout the United States, if possible. So, there is a massive inefficiency, I would refer to it, if you were going to sue all of these same companies in district court, in federal court, in the United States, unless there's some preexisting relationship with them, they're all related somehow. That's possible.

But in the classic situation where you have dozens of manufacturers of various products that are all being imported into the United States, they can all be named in one investigation at the ITC, which indicates that might be a little bit more of an efficient venue than district court. And although statistically, just having the Chinese companies named as respondents, I just took a look earlier this morning to see how many complaints have been filed this calendar year since January 1st, 2020, to see how many investigations or proposed investigations had named Chinese respondents in the cases. And there have been 17 complaints filed at the ITC for violations of Section 337.

12 of those have been instituted, five are still pending institution, but of the 17, six include proposed or named respondents that are based in China. So, it's still a pretty significant number of complaints, named respondents in China. And there are also other Asian companies and European companies that are named as well. But China does seem to be named much more frequently than it had been several years ago, Chinese companies anyway.

Cono Carrano: Another issue on this point is that the ITC has two types of exclusion orders: the limited exclusion order and a general exclusion order. The limited exclusion order is directed to the entities that are named and their products. That's the typical case. A general exclusion order will create an order that blocks a type of product if the source of those products is difficult to find. So, with respect to any foreign entity or any entity importing, if it's hard to identify who's doing the importation and who's doing the manufacturing, the essence of complainant can seek a general exclusion order to block the product as a category, as opposed to just the products of the named entities.

Jose Garriga: Thank you. Staying with the idea of the Chinese entities within the ITC context, David, are there any other noteworthy characteristics that you'd point out to listeners regarding investigations involving these entities?

David Vondle: I think there are some other characteristics in these investigations and also ways that Chinese companies can try to maneuver through the ITC. If you are a Chinese company sued in the ITC, there are several different options. If the company has resources, and an exclusion order would have significant impact, negative impact, on the company or its customers or its partners, then it may be necessary to litigate so the business doesn't suffer long-term impact where the products can't be imported. That's one option. Obviously I think that's like in all litigation: Litigating the matter, especially if you feel good on the merits, is always going to be one option.

But in the ITC, there are some unique options that are not going to necessarily be available in district court as well. We'll talk about two different flavors of those: the default judgment and a consent order.

Now, under both a default judgment and a consent order, the complainant essentially is going to no longer be able to continue the import the products at issue. With a default, unless the complainant has committed an error in its briefing, or there's been some jurisdictional issue that's improper, the remedy is going to be a limited exclusion order. The respondent may want to consider defaulting if the product is not a significant component of its business, or the cost of litigations are increasing, are greater than the revenues of the product at issue. So, in fact, we have seen this pretty frequently in the last several years where numerous Chinese entities are named in one complaint, and a lot of these entities just take a default judgment and are not willing to litigate the issue and are willing to let these products be excluded at the United States because there may not be any money in it.

That's been pretty common. Another thing that these companies can do, as I mentioned, is a consent order. And, traditionally, this is viewed as being more cooperative than failing to participate altogether. And what it essentially means is that the respondent agrees to no longer import the accused products into the United States. There are various other regulatory issues that the Chinese company may have to agree to. But one of the things that comes along with a consent judgment is that it can be liable for the activities of its customers or its downstream retailers for aiding and abetting their importation into the United States. As a result, a consent order may impose greater liability than an adverse decision after trial by the ITC or a default judgment. So, that's just something for Chinese companies to consider is when you are named as a respondent in an ITC case, if you're not going to litigate the case, do you want to consider a default judgment or possibly a consent order, and the pros and cons of both of those mechanisms?

Cono Carrano: While, historically, for the smaller Chinese entities, default has been fairly prevalent, we expect that as their export markets develop, that they will cease to do that and litigate, skip the consent judgment option and litigate because the stakes will be invariably higher as they develop their exports.

Jose Garriga: Thank you. Turning to something that I know has been on people's minds pretty much inescapably for the last three months, and that's COVID-19 and its impact on the federal government and, obviously, on people's individual lives. But in the context of what we're discussing here, what impact has the pandemic had on ITC proceedings and investigations? David, if you would.

David Vondle: Sure. Thanks, Jose. COVID-19 has had a very serious impact on ITC proceedings and investigations. What's happened is in March, when the COVID-19 outbreak really started to spread throughout the United States, the ITC closed its building and postponed all in-person hearings for three months until June. Now in-person hearings in ITC parlance, that means trials basically. So, and in the ITC, these are bench trials. What happened was, investigations continued to move forward, and discovery and new complaints were allowed to be filed, but all the trials were postponed three months. And then in May, when it appeared that the outbreak was not going to subside anytime soon, the hearing dates were moved to July or at least the earliest they could happen was July. And then, finally, earlier this week, on Monday, the ITC issued a new notice that hearings have been postponed essentially indefinitely as part of a three-phase plan to reopen, with in-person hearings allowed to be scheduled once phase three is entered by the ITC.

In the meantime, while the ITC building is closed, and all in-person hearings or trials have been postponed, all the ITC employees are working from home, and they're still capable of responding to emails and phone calls, but they are not in the building right now. So, we're seeing what was initially thought to going to be the ITC, as we mentioned, is a very expedient venue, and trials that were initially supposed to happen in March are now going to happen possibly in, I don't want to put a date on it because no date has been announced yet, but possibly looking in August and maybe even beyond that, if COVID-19 doesn't continue to subside. And in addition to postponing the in-person hearings, there have been some changes to ITC practice. Traditionally under normal circumstances or non-outbreak circumstances, complaints at the ITC have to be filed in person. And these complaints at the ITC are very detailed and involve a lot of supporting documentation. So, when these filings were made in person, it's a pretty significant undertaking.

With the ITC closing its building and not allowing people to enter its building, we are seeing that the ITC has changed its rules in certain places, including in filing of complaints, where complaints can now be filed electronically, which was not the case before. That's a pretty significant development at the ITC, where they are taking electronic forms of complaints, because that prevents people from possibly bringing COVID-19 into the ITC building or, vice versa, people walking out with COVID-19 that didn't have it when they walked in the building.

Now, in terms of the trials, one ALJ recently suggested that scheduling of trials or the in-person hearings, evidentiary hearings, may go forward as virtual hearings, or there may not be any involvement from the ALJ, the administrative law judge, at all if the parties can submit, for example, deposition testimony and things like that. And I think the parties and all the administrative law judges are trying to determine ways that they can resolve these issues as early as practicable pursuant to the statutory guidelines while there is a global pandemic going on. Because we've talked about China, and there's some of these Chinese companies are going to have witnesses based in China, and trying to bring these witnesses to Washington, D.C. for purposes of trial is not going to happen in the short term. So, the ALJs, and the parties are trying to innovate creative ways to proceed with trials as best as they can while this is going on with the understanding that in-person hearings may not happen for some time while the COVID-19 outbreak is going on.

Cono Carrano: So, just backing off to 10,000 feet here, the ITC is working, and they're still accepting new complaints. They're still instituting investigations. And just about everything is getting done except for these in-person hearings. And, as David points out, the trial is particularly difficult to pull off remotely. As David's pointed out, the parties are grappling with that a bit. And I guess this continues well into Q four, Q one next year. I'm sure there'll be some innovative ways of doing trials or hearings. But it looks like, for the most part, these cases are moving forward, and what's going to happen is some kind of backlog of hearings will develop and is developing. And you'll see a flurry of activities once things open up again, or that there's some practice the parties and the ITC can agree to, they can do these hearings safely and/or remotely.

Jose Garriga: Thank you. Let's stay with you, Cono, just to wrap up. We've covered a fair bit of ground here. What takeaways would you offer listeners, particularly in the business community, regarding the ITC as a venue to file patent grievances?

Cono Carrano: Well, the ITC continues to be an attractive and unique forum for patent holders for all the reasons we've already discussed. The cases we've talked about have been in the tech space, but also in the life science space. And it is a one-of-one forum. There is no other forum like it, and it has unique remedies, and it has unique attributes. So, by all accounts, the ITC will continue to be a place of great interest for patent holders. And it seems like in a lot of emerging technologies or developed technologies, it will be the go-to forum for patent holders.

David Vondle: I agree with everything Cono just said. And, in addition to the patent holders, when you look at companies that may not have extensive IP, for any reason, they can view the ITC as a potential forum, go forward and be successful in litigation in some of those types of non-IP claims we've mentioned earlier, like the false advertisings, interference with business relationships, things like that. Because it really is a forum that, while predominantly IP, there are opportunities to go in and support your business with non-IP claims for companies that may not necessarily have large IP portfolios, or that may not

have the right IP to cover some of the unfair competition methods that may be in the marketplace against them.

Jose Garriga: Thank you. Listeners, you've been listening to Akin Gump intellectual property partners Cono Carrano and David Vondle. Thank you both for appearing on the show today to explain and illustrate the critical role that the ITC plays in cross-border trade.

And thank you, listeners, as always for your time and attention. Please make sure to subscribe to *OnAir with Akin Gump* at your favorite podcast provider to ensure you do not miss an episode. We're on among others, iTunes, SoundCloud and Spotify.

To learn more about Akin Gump and the firm's work in, and thinking on, intellectual property and Section 337 matters, look for “Intellectual Property” and “ITC Section 337 Investigations” at the Experience tab on akingump.com and take a moment to read Cono and David's bios on the site as well.

Until next time.