

# Lawyer Insights

## ITC Consent Orders Can Be Complicated In IP Cases

By Andrew Kasnevich

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Under Section 337 of the Tariff Act, investigations conducted by the U.S. International Trade Commission frequently involve intellectual property rights claims.

The ITC can remedy unfair competition by issuing exclusion orders, consent orders, and cease and desist orders barring the importation and sale of infringing products. And with the threat of a powerful exclusion order, the commission continues to be a very popular venue for challenging unfair competition.

The ITC instituted 62 investigations in fiscal year 2021. As of Jan. 31, 2022, the commission has instituted 11 new investigations in fiscal year 2022.<sup>1</sup>

ITC investigations are frequently terminated by consent order or settlement. In fiscal year 2021, 49% of investigations terminated by consent order or settlement, the highest percentage since 2017.<sup>2</sup>

Accordingly, it is important for respondents and complainants to understand consent orders and the consequences of terminating an investigation by entering a consent order.

An ITC consent order is essentially an agreement in which the party facing a potential exclusion order — i.e., a respondent — in an ITC investigation consents to cease the complained-of conduct — e.g., importation and sale of the allegedly infringing article. In exchange, the respondent is relieved of the expense of litigation.

Failure to adhere to an order can result in substantial and ongoing fines.

Simple, right?

Not always. In practice, consent orders have been accompanied by a host of — sometimes — unexpected issues.

### What do respondents need to consider?

Under Commission Rule 210.21(c), a consent order must meet several requirements.<sup>3</sup> But so long as the consent order complies with the requirements, a complainant cannot prevent a respondent from entering one.

And a consent order alone may be enough for a respondent to extricate itself from an investigation, without, e.g., having to consider entering a settlement agreement with a complainant.

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Section 337 investigations are fast-paced, fact intensive and can require testimony from multiple experts. It is therefore no surprise that a respondent defending itself in an investigation can quickly incur substantial legal expenses and disruptions to business operations.

A respondent may believe, often strongly, that a complainant's allegations have no merit. Andrew Kasnevich and the alleged conduct does not constitute a violation of Section 337.

However even with solid invalidity, noninfringement and domestic industry defenses, prevailing over a complainant at the ITC can be an expensive proposition. For these reasons alone, a consent order is an attractive option to avoid litigation costs.

In evaluating whether to enter into a consent order, a respondent must consider the value of the conduct it is agreeing to forego. For example, a consent order can be a relatively quick and inexpensive way to end an investigation where the accused products will soon be discontinued or have low sales.

As another example, a respondent may find a consent order more attractive than litigation when accused of infringing a patent that will soon expire.

A respondent can enter a consent order that covers all, or only a portion, of the allegedly unfair conduct. Depending upon the scope of the complainant's allegations, a consent order that does not completely terminate the investigation can narrow the dispute and allow a respondent to focus its resources on defending the most important aspects of the case or on presenting its strongest defenses.

### **What strategy should a complainant pursue?**

On the complainant side, a consent order can bring an investigation to an abrupt end. Halting the allegedly unfair conduct is surely a favorable outcome, but an investigation that ends without a settlement agreement may not be completely satisfactory.

Researching, preparing and filing a complaint sufficient to launch an ITC investigation invariably incurs significant expenditures of time and effort — and likely considerable billable hours — and for a complainant that is not able to exploit the market for the excluded products, purely injunctive relief may come up short. A nonpracticing entity complainant, in particular, may desire monetary compensation from settlement.

Of course, a complainant is free to pursue monetary damages in district court, and it is common for a complainant to file a district court complaint parallel to its ITC complaint. However, district courts proceed much slower than the ITC, which can delay any monetary damages and open the underlying IP to validity challenges — e.g., inter partes reviews before the U.S. Patent and Trademark Office's Patent Trial and Appeal Board.

Accordingly, a complainant should structure its case to be resistant to consent orders, if possible. A complainant should try to target products with significant sales volume or of strategic importance to the respondent and in the marketplace, or present a breadth of allegations that will make consenting to the entirety of the requested relief unpalatable to the respondent.

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And when alleging patent infringement, the remaining term of the asserted patent must be sufficient to dissuade a respondent from simply entering a consent order and waiting for the patent to expire.

### **What are the consequences of a consent order?**

None of this is to say a consent order is the ITC equivalent of a get-out-of-jail-free card. Rather, the ITC and U.S. Court of Appeals for the Federal Circuit have repeatedly recognized the need for a respondent to fully comply with a consent order, even in potentially unexpected circumstances.

The Federal Circuit interprets a consent order as a contract between the respondent and the ITC, one that has been drafted by the respondent.<sup>4</sup> The ITC itself enforces consent orders, and the Commission can assess civil penalties or seek injunctive relief in a federal district court if it finds a respondent is not in compliance.

The need to comply with a consent order persists regardless of other defenses available to a respondent. For example, a respondent accused of patent infringement in a Section 337 investigation has many avenues to challenge the validity of a patent, including in a district court case or a post-grant challenge. While it can be — understandably — tempting to rely on the subsequent invalidation of a patent to negate the outcome of an ITC investigation, including a consent order, a recent precedent offers a reminder that any such negation only goes so far.

In the March 1 *DBN Holding Inc. v. International Trade Commission*<sup>5</sup> decision in the Federal Circuit, DeLorme Publishing — now known as DBN Holding — agreed to a consent order barring the importation of two-way global satellite communication devices, systems and components to resolve an ITC investigation based on allegations of infringing several claims of U.S. Patent No. 7,991,380, or the '380 patent.<sup>6</sup>

As required, the consent order expressly stated that it "shall not apply with respect to any claim of any intellectual property right that has expired or been found or adjudicated invalid or unenforceable by the [ITC] or a court or agency of competent jurisdiction," provided that judgment has become final and non-reviewable.<sup>7</sup>

The U.S. District Court for the Eastern District of Virginia later invalidated the alleged claims of the '380 patent in a decision subsequently affirmed by the Federal Circuit.<sup>8</sup> Prior to invalidation, the ITC had imposed an approximately \$6.2 million civil penalty on DeLorme for violating the consent order, which the Federal Circuit had also affirmed.<sup>9</sup> In response to a later appeal, the Federal Circuit instructed the ITC to assess on remand whether to modify or rescind the civil penalty.<sup>10</sup> On remand, the ITC determined that the civil penalty did not require modification or rescission.

In *DBN*, the Federal Circuit found no abuse of discretion and again affirmed the ITC's finding, sending a clear message that parties are wise to comply with all Commission orders—no matter how promising the party may think its position is—unless, and until, the IP right at issue is formally invalidated.<sup>11</sup> Notably, the Federal Circuit expressly agreed "with the ITC that deterring violation of its orders by imposing civil penalties for violative conduct is in the public interest."<sup>12</sup>

In the 2019 *Carburetors and Products Containing such Carburetors*<sup>13</sup> investigation, the ITC also demonstrated that using a consent order to exit an investigation is not without consequence. There, the

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complainant had accused carburetor products from several respondents of allegedly infringing two patents.

Early in the investigation, one respondent, Fujian Hualong Carburetor, moved to terminate based on a consent order. Fujian's motion, which had the support of the Office of Unfair Import Investigations and was actively opposed by the complainant, was granted and resulted in Fujian's exit from the investigation.<sup>14</sup>

The investigation continued, however, against other respondents. Ultimately, the complainant failed to establish the economic prong of the domestic industry requirement.

Accordingly, the investigation was terminated as to the remaining respondents with a finding of no violation.<sup>15</sup>

Fujian then filed a petition seeking rescission of its consent order, opposed by both the complainant and the Office of Unfair Import Investigations. Fujian's petition was denied, with the commission finding that a later determination that the complainant failed to satisfy the domestic industry requirement does not qualify as a change in the conditions of law or fact that led to the consent order.<sup>16</sup> Fujian thus remained barred from importing and selling its accused carburetors — subject to the consent order — while respondents who continued to contest the investigation were free to import their carburetors.

Unfortunately, there is no apparent way to guard against this turn of events before filing a 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" under Rule 210.21(c)(4).

### Takeaways

The cases make two things clear. First, although the ITC may rescind an order, including a consent order, based on a changed condition of fact or law, it need not rescind a penalty issued for a prior violation of such an order.

Compliance with a consent order up to and until its rescission by the commission is paramount. And second, sometimes rescission of a consent order is not an option at all, even where a complainant's case subsequently fails on the merits.

Both respondents and complainants should make themselves aware of complications like these when considering the options for ending an ITC investigation.

### Notes

1. See U.S. International Trade Commission, Section 337 Statistics, [https://usitc.gov/intellectual\\_property/337\\_statistics.htm](https://usitc.gov/intellectual_property/337_statistics.htm).

2. See U.S. International Trade Commission, Section 337 Statistics, Settlement Rate Data, [https://usitc.gov/intellectual\\_property/337\\_statistics\\_settlement\\_rate\\_data.htm](https://usitc.gov/intellectual_property/337_statistics_settlement_rate_data.htm).

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3. Requirements include: 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).

4. DeLorme Publ'g Co. v. Int'l Trade Comm'n , 805 F.3d 1328, 1331, 1333 (Fed. Cir. 2015), citing uPI Semiconductor Corp. v. Int'l Trade Comm'n , 767 F.3d 1372, 1377 (Fed. Cir. 2014).

5. DBN Holding, Inc. v. International Trade Commission , 26 F.4th 1363 (March 1, 2022).

6. DBN, 26 F.4th at 1366.

7. DBN, 26 F.4th at 1366 at n. 4.

8. DeLorme Publ'g Co. v. BriarTek IP, Inc. , 622 F. App'x 912, 913 (Fed. Cir. 2015) (non-precedential).

9. DeLorme Publ'g Co. v. Int'l Trade Comm'n , 805 F.3d 1328, 1333-34 (Fed. Cir. 2015).

10. DBN Holding, Inc. v. Int'l Trade Comm'n , 755 F. App'x 993, 998 (Fed. Cir. 2018) (non-precedential) under under 19 C.F.R. § 210.76.

11. DBN, 26 F.4th at 1366.

12. DBN, 26 F.4th at 1372.

13. Investigation No. 337-TA-1123.

14. Investigation No. 337-TA-1123, Comm'n Notice at 2.

15. Id.

16. Id. The Commission also found that the consent order did not contain any language permitting rescission based on a later finding of no domestic industry.

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