

THE ABC of ITC

Ben Rigby and **Fraser Allan** examine the US intellectual property bastion that is the International Trade Commission

At first blush, mention of the International Trade Commission's work, to a non-US lawyer, may elicit some non-committal answer, a guess focused on trade law. But while trade policy is certainly within the ITC's remit, it also has an intellectual property string to its bow: it can act as a quasi-judicial body that investigates whether or not, and to what extent, an unfair trade practice is harming US businesses.

The ITC can also be used to litigate a wide range of alleged unfair acts, most notably patent, copyright, or trademark infringements. As **Smith Brittingham IV** and **Christine Lehman**, both of US IP law firm **Finnegan, Henderson, Farabow, Garrett & Dunner**, explain: "The ITC is a potentially attractive forum for any IP owner, whether foreign or US-based, as long as the company or licensees have some US activities that can satisfy the ITC's 'domestic industry' standard."

Rodney Sweetland, who leads **Duane Morris'** ITC practice, says the ITC offers foreign companies certain advantages in such disputes – speed, a high win rate for the patent holder, and decision-makers with expertise in high technology and patent law. "In the US, juries decide patent cases, with all the predictable problems occasioned from laymen deciding complicated disputes," Sweetland explains. "It is also likely that at least some national bias, however small, weighs in the jurors' minds in favour of a domestic company and against a foreign one."

Not so at the ITC, where cases are often brought by non-US companies against American companies which manufacture abroad. What's more, the institution has developed a reputation for remaining neutral about party nationality even in high-profile disputes, says **Alexander Chinoy** of **Covington & Burling**.

Then there are the judges. Brittingham notes that "ITC judges focus only on IP disputes, unlike district court judges, who must handle a wide variety of cases". Chinoy agrees, saying that "for technology companies, the ITC is appealing because its cases are heard by

experienced Administrative Law Judges, not juries". He adds: "That provides greater predictability as to end results, which is important for business decision-makers who increasingly see the ITC as the most powerful legal tool in their arsenal for either monetising their IP or solidifying their position in the US market."

Rescue remedies

That gives the ITC an edge. But **Nina Tallon** of **WilmerHale** says it also offers significant injunctive relief at a time when the availability of such relief is less predictable in US district courts. Speed is also emphasised by Tallon, who notes that statute requires investigations to be completed quickly, typically in 14 to 18 months.

Rory Radding, an IP partner at **Edwards Wildman**, says the Commission currently takes about 15 months until it reaches a final decision. Major changes assisting that speed were the addition of two new Commissioners and an attempt to litigate the issues of domestic industry early in the case, especially if the only domestic activity is licensing.

For **Paul Brinkman**, a partner at **Quinn Emanuel** in Washington, DC, the attraction of the ITC "applies in competitor cases where you want the other side's product out of the stream of commerce". In licensing cases, for example, the weight of the injunction aids bargaining power.

Under relevant US law, USC Section 337, there are various remedies available before the ITC for unfair practices related to imports – some of which matter to non-US clients. **Stephen Rosenman**, a **Ropes & Gray** partner, notes that S337 injunctive relief has all the power of the US Federal government behind it. The ITC, he adds, offers three primary remedies in that relief: general exclusion orders, limited exclusion orders and cease-and-desist orders. Exclusion orders, says Rosenman, if approved by the President, are enforced

by US Customs and Border Protection. Cease-and-desist orders are enforced by the ITC itself, under threat of fines.

General exclusion orders bar the importation into the United States by any party of a specified category of goods, while limited exclusion orders bar the importation of specified goods by specified parties. Cease-and-desist orders may be issued to prohibit specific activities occurring within the US relating to what the ITC deems to be unfair acts of importation. Chinoy says that can result in fines on companies which keep importing infringing goods; penalties can be up to twice the entered value of infringing imports, or USD 100,000 per violation day.

The impact of the ITC

These remedies can have a significant impact on respondents, but also on US customers and their foreign suppliers. Brinkman says this “has been used more frequently by US companies, but not exclusively”. He adds: “It’s of interest to foreign companies on both sides, because while it’s a trade law to benefit domestic industries, a lot of the complainant parties have been foreign-based, such as **Samsung** in the case against **Apple**.”

Brinkman says litigants like Samsung “rely on having hundreds or thousands of US workers in R&D, even though actual manufacturing may be happening abroad”. That means a foreign or non-US based company can take ITC action to support its US workers. As Chinoy says, however, if “a critical product line is barred from the US market by the ITC, the business consequences can be dramatic”.

The ITC can be used strategically in any IP dispute, Chinoy adds: “Major companies are increasingly leveraging such commercial impacts stemming from ITC investigations to obtain broader resolution to their most significant business disputes involving IP.” Indeed, the ITC’s remit goes further, says Lehman.

“Unlike US district court litigation, the ITC needs personal jurisdiction over a non-US company in order to issue and enforce

those remedies,” she says. “ITC remedies are ‘in rem,’ against the thing, namely the imported goods, not against a particular company.” A foreign company, she notes, cannot refuse to appear before the ITC by assuming that the US legal system cannot exercise jurisdiction. “The ITC will simply hold that company in default and exclude its goods from the United States.”

Sweetland suggests that for a complainant which is a competing company with a respondent, ITC remedies represent a means to gain market share. “For a licensing company, a positive ITC outcome can force the losing respondent to pay licensing fees or risk access to the US market,” she says.

Electronic warfare

So which sectors are most affected by ITC litigation? Brittingham says that, over the years, the ITC has seen different industries file cases in waves. In the 1990s, many disputes involved semiconductor memory products;

in more recent years, cases relating to display screens and light emitting diodes have taken prominence. Sweetland suggests LEDs “will probably be a distant second in terms of dollar value, given the evolution of the lighting industry in the US towards LEDs.”

Both believe that the mobile phone industry has been the most active business sector over the past five years, as the ITC has played a significant role in the so-called smartphone wars. Sweetland says the ITC’s docket “tends to reflect the most profitable and competitive international trade technology sectors”, which Brinkman says reflects intense rivalry for consumer loyalty. “Once you are an Android, iOS or Windows phone user, you’re more likely to stick with that,” he says. “So, getting that edge on features on those devices and excluding others from having those features have led to the most high-profile ITC cases.”

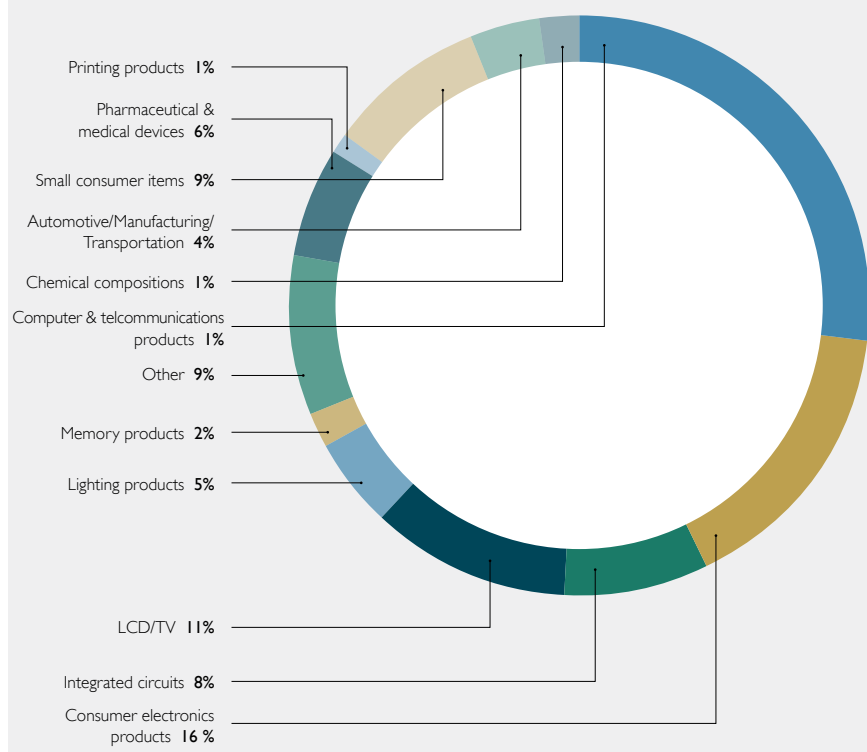
Arguably the most notable ITC case in 2013 was Samsung’s dispute with Apple, where the former attempted to exclude Apple’s iPhones based on alleged infringement of Samsung patents. The South Korean company prevailed, but as Brittingham explains: “President Obama exercised his rarely-used power to disapprove of an ITC remedy on policy grounds – for the first time in over 30 years ▶

“Major companies are increasingly leveraging such commercial impacts stemming from ITC investigations to obtain broader resolution to their most significant business disputes involving IP”

ALEXANDER CHINOI,
COVINGTON & BURLING



Accused Products in CY 2011 and 2012



- – in announcing that the ITC's injunctive-style remedies should only be used to enforce standards-essential patents under very strict circumstances”.

According to Lehman, some foreign businesses criticised the decision as appearing to favour an accused US company facing infringement allegations from a foreign competitor. WilmerHale represented Apple in that case; for her part, Tallon notes that it “will likely change how standard essential patents and public interest issues are litigated at the ITC”.

Outside of smartphones, Brinkman says “there have always been plenty of ITC cases concerning the more fungible components in electronic products such as memory”. Yet not everyone has need of the ITC, says **Stephen Auten**, a partner at **Taft Stettinius & Hollister** in Chicago. His focus, on generic drugs and pharmaceuticals, is very different from telecommunications. Pharmaceutical clients tend to seek federal court remedies, he notes.

Litigating in federal court

ITC litigation runs in parallel with federal court litigation, for several reasons. Brinkman explains that the prospect of an automatic stay dates back to earlier US-EU trade negotiations. When the US

joined the WTO and GATT, “the European Community at the time raised concern that it could be unfair for foreign respondents to defend themselves in two forums at the same time”, he says.

And, as Brittingham notes, damages are not available in the ITC, so filing in both forums gives the IP holder the broadest possible range of remedies. Brinkman points out: “You can’t get money out of the ITC.” He adds: “For past infringements, you have to ask the district federal courts to provide the monetary damages.” In contrast, “the ITC is a forward-looking agency, so the result of an ITC proceeding affects future activities. If you want to collect for the past, you have to go to court.”

Lehman says an ITC respondent can automatically stay parallel district court litigation. In such cases, the ITC proceedings will take priority; the district court will wait until after the ITC has ruled. Sweetland says that this statutory right “is exercised in virtually all cases, because of the tremendous logistical burdens and expense of litigating an ITC case, let alone trying to do that while simultaneously defending in a district court”. But that kind of tactical decision can be complicated. Sweetland adds that, in rare instances, “exceptionally well-financed respondents will not invoke their right to

an automatic stay, putting the complainant to a substantial burden”.

The ITC result is not binding on the district court, so a losing party in the ITC can sometimes re-litigate the entire case in a subsequent district court case. On the other hand, Lehman notes, “a district court result is binding on the ITC. So there are many strategy issues that can play out in different ways”. Brittingham adds that, by filing a parallel district court complaint, the IP holder can also choose his favourite district – where his operations are located, for example. If not, “the accused infringer may file a declaratory judgment action in its own preferred forum and force subsequent federal court litigation to occur there”, he says.

According to Chinoy, it ultimately boils down to tactics. At the end of the ITC case, the US IP owner has a right to take the record developed at the ITC and move it over to the federal court case. “If an IP owner is successful at the ITC, this shared record may create efficiencies in ultimately getting damages in the district court,” he says. “Conversely, if an IP owner feels that the ITC case is not going well, they may withdraw the ITC case and proceed in the federal court, using what they have learned at the ITC.”

On the whole, however, Chinoy says the Commission is performing well. With new resources, the gradual ending of the smartphone wars and hearings undertaken in faster times in 2013, he believes the ITC remains a faster forum than most US federal courts. The ITC, it seems, is still good to go for US IP. ■

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