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Reply comments of Qualcomm Incorporated in Response to the Commission's Request for Written Submissions in *Certain Wireless Communication Devices, Portable Music and Data Processing Devices, Computers and Components Thereof*, Inv. No. 337-TA-745.

Dear Secretary Barton:

Qualcomm Incorporated respectfully submits these reply comments in further support of its response to the Notice of Commission Decision to Review in Part a Final Initial Determination Finding a Violation of Section 337; Request for Written Submissions issued by the United States International Trade Commission in the matter of *Certain Wireless Communication Devices, Portable Music and Data Processing Devices, Computers and Components Thereof*, Inv. No. 337-TA-745, June 25, 2012 (the "Commission Request").

We observe at the outset that most of the submissions to the Commission have agreed on the basic point that the ITC should consider the availability of an exclusion remedy on a case-by-case basis when the issue is infringement of a standards-essential patent ("SEP") subject to a FRAND commitment. Notably, even the Federal Trade Commission, which has recently directed considerable attention to concerns about the potential for so-called patent hold-up, does not argue for a categorical ban on exclusion orders based on SEPs.[1]

Indeed, only a small number of comments have argued that the Commission should be categorically barred from issuing exclusion orders in connection with SEPs subject to FRAND commitments.[2] These arguments, however, rest on two incorrect premises: (i) that by making a FRAND commitment, a patent holder has waived its right to injunctive relief, and (ii) that unless injunctive or exclusionary remedies are categorically taken off the table for SEPs subject to a FRAND commitment, standardized industries are somehow at grave risk of systemic "hold-up".

These foundational assumptions ignore real-world evidence that standardized industries are flourishing rather than being impaired by "hold-up", and they either completely disregard or mischaracterize the contractual content of the FRAND commitment. Qualcomm

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[1] *See* Comments of the Federal Trade Commission (June 6, 2012) at 4. *See also* Comments of the Office of Unfair Import Investigations (July 9, 2012) at 9-16; Comments of Ericsson Inc. (July 9, 2012) [hereinafter "Ericsson"] at 1; Comments of GTW Associates (July 9, 2012) [hereinafter "GTW Associates"] at 3; Comments of the Innovation Alliance (July 9, 2012) [hereinafter "Innovation Alliance"] at 1-2; Comments of InterDigital Communications LLC (July 9, 2012) at 1-2; Comments of Qualcomm Incorporated (July 9, 2012) [hereinafter Qualcomm] at 4-6; Comments of Research In Motion Corporation (July 9, 2012) at 1; Comments of Samsung (July 9, 2012) at 1.

[2] *See* Comments of Microsoft (July 9, 2012) [hereinafter "Microsoft"] at 2; Comments of 19 Economics and Law Professors (July 9, 2012) [hereinafter "Chien *et al*."] at 5; Comments of Verizon Communications Inc., Cisco Systems, and Hewlett-Packard Company (July 9, 2012) [hereinafter "Verizon *et al*."] at 1-2.

submits these reply comments to ensure that the commission bases its decision on an accurate record.

I. THERE IS NO EVIDENCE OF A SYSTEMIC HOLD-UP PROBLEM.

A ban on exclusion orders to protect SEPs—even in the case of willful infringers who refuse FRAND licenses—is an extreme solution in search of a problem. Indeed, proponents of such a rule are attacking the core premises of the patent system, and the Commission's statutory authority and mission, based on mere speculation. As they have previously in other fora, these advocates theorize about a risk of systemic "hold-up" of standardized industries,[3] but continue to fail to substantiate their speculations with a single historical example of a standardized industry being disrupted or impaired by the type of "hold-up" about which they warn. This "failure of proof" has been criticized repeatedly with no evidentiary answer forthcoming. Yet this empirically unsupported contention is now the flawed foundation for the categorical "no injunction or exclusion" position.

Instead, the evidence before the Commission shows that standardization continues to function well. Drawing on submissions to the FTC's Patent Standards Workshop last year, the Innovation Alliance observed that "numerous commentators, including standard setting organizations (SSOs), academics, industry analysts, licensors, and other stakeholders expressed strong views that hold-up is not a significant or widespread problem in the market".[4] In its submission to that same workshop, Microsoft stated that "there seems to be a dearth of examples of actual patent hold-up with regard to the essential patent claims reading on a standard. Microsoft has never been accused of patent hold-up in this regard, nor has it accused any other company of such behavior. This is not to say that Microsoft has never been a party to litigation where the parties disagree whether proffered licensing terms were consistent with the relevant patent licensing commitment (such as RAND)."[5] Furthermore, when addressing the different interests of companies with different business models, Microsoft added "The current RAND-based structure balances these different interests" and warned that "Proponents seeking to tilt that balance may largely be seeking reduced licensing costs and a related competitive advantage as opposed to solving a documented and widespread problem."[6] The comments of ANSI and major SSOs, such as ATIS, similarly reported the absence of widespread "hold-up".[7] And the

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[3] *See, e.g.,* Chien *et al*. at 2-7; Verizon *et al*. at 4-13.

[4] Innovation Alliance at 3.

[5] Federal Trade Commission Patent Standards Workshop, Project No. P11-1204, Comments of Microsoft (June 14, 2011) at 7 available at: http://www.ftc.gov/os/comments/patentstandardsworkshop/00009-60523.pdf

[6] *Id.* at 8.

[7] *See* Richard S. Taffet, *The Federal Trade Commission's Evolving IP Marketplace Report's Challenge to Inventiveness, Innovation, and Competitiveness*, THE ANTITRUST SOURCE (February 2012) at 12 available at: http://www.americanbar.org/content/dam/aba/publishing/antitrust_source/feb12_taffet_2_27f.authcheckdam.pdf.

submission of standards expert George T. Willingmyre in response to the Commission Request affirms that "The vast majority of the standards world is working quite well".[8]

Despite the current litigation and headlines, the experience of the mobile communications industry—the industry with which Qualcomm is most familiar—is consistent with this. New entrants to and existing participants in the mobile communications industry depend on access to vast amounts of standardized IP to bring their products to market. Industry expert Keith Mallinson has observed, with supporting data, that FRAND-based "IP licensing arrangements have promoted—not inhibited—superlative market developments in mobile communications",[9] while prices of mobile devices and network services have "fall[en] relentlessly".[10] The adoption of 3G technologies is the best example of such success. Notably, throughout the period of stratospheric industry growth of 3G products and services, licenses were negotiated and obtained notwithstanding whatever leverage the availability of injunctive or exclusionary relief might have provided[11] and without any indication that royalty terms have harmed industry growth.[12] Instead, the "evidence is that handset prices and royalty costs have actually fallen—with handset prices, upon which royalty fees are based, declining 77% on average since 1993—despite the addition of many new technologies and increasing demand for advanced features and functionality".[13]

In short, the available evidence contradicts any suggestion that standardized industries are afflicted by systemic "hold-up". Radical changes to the jurisdiction of or remedies available to the Commission should not be made based on purely speculative problems.

II. SUPPORTERS OF A BLANKET RULE PRECLUDING AN EXCLUSION ORDER IGNORE THE CONTRACTUAL CONTENT OF THE FRAND COMMITMENT.

Qualcomm's initial submission observed that the starting point of the Commission's inquiry is to recognize the FRAND commitment as a voluntary contractual commitment whose content can be found in the intent of the parties.[14] Although the contractual nature of each FRAND commitment made by a patentee is undeniable and by now well-

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[8] GTW Associates at 4.

[9] Keith Mallinson, WiseHarbor, *A Compendium of Industry and Market Analysis Articles on Intellectual Property in Mobile Communications Standards*, (June 12, 2011) [hereinafter "Mallinson"] at 9 available at http://www.ftc.gov/os/comments/patentstandardsworkshop/00007-60459.pdf.

[10] Mallinson at 14.

[11] *Compare* Verizon *et al.* at 7.

[12] *See* Mallinson 15-22; *see also* Roger G. Brooks, *Patent "Hold-Up," Standards-Setting Organizations, and the FTC's Campaign Against Innovators*, 39 AIPLA Q.J. 435, 443-44 (2011).

[13] Mallinson at 16.

[14] *See* Qualcomm at 2-3.

recognized,[15] supporters of a blanket rule against exclusion orders persist in simply ignoring that fact, and make no attempt to consider the intent of those who adopted particular SSO IPR policies, or those who entered into any particular FRAND commitment. Instead, they invent and assert their own preferred generic definition of the FRAND commitment without regard for the intent of the actual parties. For example, Chien *et al*. state without basis, and incorrectly, that "Holders of SEPs put aside their rights to exclude when they agree to make their technology available on terms that are reasonable and non-discriminatory and imply that legal remedies (i.e. monetary damages) are adequate."[16] In the case of the FRAND commitment made to ETSI, at least, this statement is flatly and demonstrably incorrect. The ETSI membership did *not* "imply that legal remedies (i.e. monetary damages) are adequate". Instead, in 1994 they expressly and deliberately *removed* language from the ETSI IPR Policy that would have required a waiver of the right to injunctive relief as a part of an ETSI FRAND commitment.[17] Although Chien *et al*. pay lip service to the "RAND bargain",[18] the "bargain" they urge upon the Commission is in fact their own policy prescription, unlinked to any intent of actual parties to any actual SSO IPR policy or particular FRAND or RAND commitment. In fact, the bright-line blanket rule against exclusion orders being advocated is so extreme and one-sided that its supporters do not point to a *single* SSO that has ever adopted such a policy explicitly, or endorsed such an interpretation of its policy. Companies that have made FRAND commitments under the ETSI IPR Policy never intended or expected to give up their rights to seek injunctions or exclusion orders in all circumstances. There is no basis (legal or otherwise) for unilaterally stripping such important rights from holders of SEPs (against their will or agreement) and such a result would be fundamentally unfair. In any event, any modifications to FRAND commitments could only apply prospectively.

III. AN INFLEXIBLE RULE PRECLUDING EXCLUSION ORDERS WOULD ALTER SECTION 337 OF THE TARIFF ACT WITH UNSOUND RESULTS.

Not only would adopting a rigid rule against exclusion orders mean retroactively rewriting FRAND commitments entered into across many years, it would alter Section 337 of the Tariff Act,[19] effectively closing off the Commission as a Congressionally-authorized forum in which holders of SEPs can protect themselves from unfair competition by unlicensed imported infringing products.

It is simply a disconnect with the Commission's authorizing statutes to say that money damages are an "appropriate remedy" for infringement of an SEP,[20] and that the proper

[15] *See* Qualcomm at 2-4.

[16] Chien *et al.* at 2.

[17] *See* Qualcomm at 5. Microsoft's assertion that "By assuming its RAND obligations, Motorola freely gave up exclusionary remedies in favor of a reasonable royalty", Microsoft at 2, has no textual or historical grounding and is accordingly equally suspect.

[18] *See* Chien *et al.* at 5.

[19] 19 U.S.C. § 1337.

[20] *See* Chien *et al.* at 7.

forum for a SEP infringement claim is federal court.[21] As the Commission has repeatedly recognized, the Tariff Act of 1930 "represents a legislative determination that it is unnecessary to show irreparable harm to the patentee in the case of infringement by importation. The remaining factors, those of balance of hardships and public interest, are analyzed by the Commission in its . . . public interest analysis."[22] To argue that the Commission defer, in the case of SEPs, to a federal court damages claim, is to argue that the Commission *not* follow the law. As Senator Hatch recently observed, the Commission fulfills a central role in protecting intellectual property rights and it should indeed follow the law.[23]

As to remedies, it is worth noting that the "appropriate remedy" argument in its implications is not confined to SEPs or the Commission, and in fact seeks to erode the fundamental underpinning of the patent law, which is the "right to exclude", and which entitles a patentee to injunctive relief against an unlicensed infringer subject only to the exceptions outlined by *eBay Inc. v. MercExchange, L.L.C.*[24] In the case of the Commission, issuing an exclusion order that gives effect to the patentee's "right to exclude" in appropriate circumstances is not only what the law requires, but is wise policy. A contrary rule—a categorical ban on exclusion orders and the Commission's jurisdiction—would radically reduce incentives for infringers to engage in good faith negotiation and to take licenses voluntarily, instead motivating "catch-me-if-you-can" infringement. This can only encourage more litigation on multiple individual patents, in multiple jurisdictions, with its related costs to the parties and to consumers. As Professors Epstein, Kieff, and Spulber have stated, the background threat of injunction or exclusion motivates manufacturers to seek licenses early and enter into value-creating agreements with patent holders.[25] If the consequences of infringing are no worse than the cost of taking a license up front, infringement becomes rational. The result is a multiplication of the societal costs of infringement, and a diversion of the innovator's resources toward potentially serial litigation on a worldwide scale. Once it becomes known that a FRAND commitment eliminates all injunctive relief even against the most obstinate unlicensed infringer, and invites repeated litigation, innovators may rightly think twice before making such commitments. This change in incentives could alter the balance between proprietary and standardized solutions,

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[21] *See* Chien *et al.* at 8.

[22] *In the Matter of Certain Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets*, Inv. No. 337-TA-543, Commission Determination on the Issues of Remedy, the Public Interest, and Bonding; Termination of the Investigation, 2011 WL 6121182, at 62 n.230.

[23] *See* Letter from U.S. Senator Orrin G. Hatch to The Hon. Irving A. Williamson, Chairman, U.S. International Trade Commission (July 12, 2012).

[24] 547 U.S. 388 (2006). In the case of the Commission, the exceptions are accommodated within the Commission's statutory public interest consideration under 19 U.S.C. § 337(d)(1). As part of that inquiry, the Commission is fully able to assess, for example, whether an infringer refuses to accept and pay for a RAND license and balance that with the strong public interest of a strong patent system. Qualcomm at 6.

[25] *See* Richard A. Epstein, F. Scott Kieff & Daniel E. Spulber, *The FTC, IP, and SSOs: Government Hold-Up Replacing Private Coordination*, 8 J. COMPETITION L. & ECON. 4, 31 (2012) ("The bottom line is that the social goal of the patent system . . . is not to punish (let alone reward) infringers, but to guide them not to infringe.").

potentially reducing the benefits of standard-setting to business, consumers, and the economy and the competition that standards can facilitate.[26]

IV. LEGAL STANDARDS FOR DETERMINING THE CONSEQUENCES OF A PARTICULAR FRAND COMMITMENT DO NOT COMPEL A BLANKET RULE PRECLUDING EXCLUSION ORDERS.

The Commission is aware that the consequences of particular FRAND commitments are the subject of recent and ongoing litigation across the country. While the nation's courts are in the process of applying FRAND to particular factual circumstances, nothing in this evolving body of law compels a rigid rule precluding exclusion orders.

Appropriately, the courts do recognize that FRAND commitments are enforceable contracts of which potential licensees are third-party beneficiaries.[27] Determining the meaning of a particular FRAND commitment (like any other contract) involves finding the intent of the parties. For example, after a close reading of the IEEE and ITU IPR policies, the district court in *Microsoft v. Motorola*[28] concluded that the RAND commitment in those IPR policies "envisions a negotiation between the parties towards a resulting RAND license" and that a determination of whether an offer was RAND "is heavily fact intensive".[29] In the context of the ETSI FRAND obligation with which we are very familiar, the parties did not intend FRAND terms to correspond to a single, mathematical benchmark, but instead to fall within a range of reasonableness reflective of the flexible and versatile nature of the FRAND commitment.[30]

Because the parties to the ETSI IPR Policy did *not* intend that a FRAND commitment entail a waiver of the right to injunctive relief, the law does not (and should not) compel this outcome. A recent district court decision[31] cited by Microsoft for the proposition that "RAND promises preclude injunctive relief"[32] does not justify that extreme conclusion. *First*, Microsoft relies on the court's statement that "'Motorola committed to license the '898 [Patent] to anyone willing to pay a FRAND royalty and thus *implicitly* acknowledged that a royalty is adequate compensation for a license to use that patent'".[33] But as we have observed, no such "implication" can exist categorically, and specifically cannot exist in the case of ETSI's

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[26] Ericsson at 2-3.

[27] *See, e.g.*, *Microsoft Corp. v. Motorola, Inc.*, No. C10-1823JLR, 2012 WL 627989, at *4-5 (W.D. Wash. Feb. 27, 2012).

[28] No. C10-1823JLR, 2012 WL 2030098, (W.D. Wash. June 6, 2012).

[29] *Id.* at *11-12.

[30] *See* Qualcomm at 7-9.

[31] *Apple, Inc. v. Motorola, Inc.*, No. 11-cv-8540, 2012 WL 2376664, (N.D. Ill. June 6, 2012).

[32] Microsoft at 2.

[33] *Id.* at 1 (quoting *Apple*, 2012 WL 2376664 at *12) (emphasis added).

IPR Policy and FRAND commitments made under that policy, because the clear and express intent of the ETSI membership was that a FRAND commitment would *not* include a waiver of the right to an injunction.[34] The *Apple* court simply did not engage with the relevant (and controlling) history and text of the ETSI IPR Policy and thus cannot be a reliable guide of express contractual meaning of the ETSI FRAND commitment. *Second*, even the *Apple* court recognized that an injunction could be available in certain circumstances, such as if "Apple refuses to pay a royalty that meets the RAND requirement".[35] Later, it directed its attention to the *eBay* test for granting an injunction and concluded that an injunction was not available because Motorola had not "shown that damages would not be an adequate remedy".[36] A fact-specific inquiry under the guidelines of *eBay* (in federal court cases) or under the Commission's authorizing statute (for matters before the Commission)—not a categorical ban on exclusion orders for patents subject to a FRAND commitment—is the correct procedure.

We appreciate the Commission's consideration of this reply and our initial response to the Commission Request.

Respectfully,

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VIA ELECTRONIC FILING

[34] *See* Qualcomm at 5.

[35] *Apple*, 2012 WL 2376664, at *12.

[36] *Id.* at *13.