



December 3, 2012

**By Electronic Filing**

The Honorable Lisa R. Barton  
Acting Secretary to the Commission  
U.S. International Trade Commission  
500 E Street, S.W.  
Washington, DC20436

RE: *In the Matter of Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers, Investigation No. 337-TA-794*

Dear Acting Secretary Barton:

Ericsson Inc. and its related companies ("Ericsson") make the following statement in response to the U.S. International Trade Commission's (the "Commission") invitation for written submissions in Investigation No. 337-TA-794. In particular, Ericsson's statement addresses the first two questions posed by the Commission in its November 19, 2012 Notice.

Generally, Ericsson believes that a declared standard-essential patent should be eligible for entry of an exclusion order. However, the Commission should not issue an exclusion order under a standard-essential patent if the patent holder has failed to abide by its commitment to offer a license on fair, reasonable, and non-discriminatory ("FRAND") terms, as prescribed by the relevant standard-setting organization. Ericsson advocates this policy as an optimal middle ground between the more extreme positions advocated by others. Entirely ignoring a patent holder's commitment to license on FRAND terms will disserve the public interest because holders of standard-essential patents could arbitrarily exclude products from the U.S. market, causing increased prices and reduced consumer choice. But a policy that entirely precludes an exclusion order with respect to standard-essential patents serves the public interest no better. The elimination of an established and effective means to enforce standard-essential patents against unwilling licensees would encourage licensees to refuse FRAND offers and increase litigation, with damages awarded on a patent-by-patent and country-by-country basis as the only possible remedy. The elimination of exclusion orders would further discourage companies such as Ericsson from contributing to open standards, with their demonstrated benefits of improving consumer choice, lowering prices, and encouraging ongoing innovation. To ensure that standards remain truly open and continue to develop in the future, the Commission should adopt the balanced approach proposed by Ericsson: permitting an exclusion order if the patent owner complies with its FRAND undertaking.

The remainder of this response discusses (i) the equitable defenses that could preclude an exclusion order if the patent holder has failed to abide by its commitment to

offer a license on FRAND terms, and (ii) the framework for determining whether a patent holder has complied with its FRAND undertaking.

**1. Does the mere existence of a FRAND undertaking with respect to a particular patent preclude issuance of an exclusion order based on infringement of that patent? Please discuss theories in law, equity, and the public interest, and identify which (if any) of the 337(d)(1) public interest factors preclude issuance of such an order.**

The mere existence of a FRAND undertaking with respect to a particular patent does not preclude the issuance of an exclusion order based on infringement of that patent. A FRAND undertaking, such as the commitment made to ETSI at issue in this Investigation, is a contractual commitment to license essential patents on certain terms; Ericsson is not aware of any FRAND undertakings that require the party making the commitment to forego its right to enjoin or exclude infringing products when the accused infringer refuses to accept a FRAND license. Moreover, there are strong policy reasons, such as maintaining an incentive for innovative companies to participate in standards-setting organizations, to award an exclusion order in that context. Ericsson attaches, and incorporates by reference, its written submission in Investigation No. 337-TA-745, which further addresses this question.

A respondent in a Section 337 investigation may choose from multiple equitable theories to defend against a patent infringement claim when a breach of a FRAND undertaking has occurred. United States district courts have permitted a variety of equitable defenses to infringement based on a patent-holder's failure to abide by its FRAND undertaking. *See, e.g., Barnes & Noble, Inc. v. LSI Corp.*, 849 F. Supp. 2d 925, 928 (N.D. Cal. 2012) (refusing to dismiss affirmative defense of unenforceability due to standards-setting misconduct on the grounds of fraud, equitable estoppel, waiver, implied waiver, unclean hands, and implied license). A respondent in a Section 337 investigation may similarly avail itself of each of these equitable theories. 19 U.S.C. § 1337(c) states that "all legal and equitable defenses may be presented in all cases." *See also Lannom Mfg. Co. v. United States Int'l Trade Comm'n*, 799 F.2d 1572, 1578 (Fed. Cir. 1986) (holding that the Commission recognizes the same defenses and applies the same burdens of proof as in the courts).

**2. Where a patent owner has offered to license a patent to an accused infringer, what framework should be used for determining whether the offer complies with a FRAND undertaking? How would a rejection of the offer by an accused infringer influence the analysis, if at all?**

Regardless of which equitable theory or theories are put forth by a respondent, it is likely that the Commission will be asked to decide whether the patent owner's conduct, and particularly the licensing offer made by the patent holder, complies with the relevant FRAND undertaking. At its core, this question requires the Commission – or any other judge or jury – to judge the patent holder's conduct against the specific FRAND undertaking made by the patent holder with respect to the asserted patents and determine

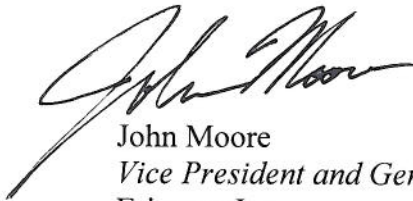


whether the patentee's conduct and licensing offer amounts to a breach of its FRAND undertaking.

Such a determination will likely be fact-intensive because FRAND will usually not be a single point, as real world licenses for the same portfolio tend to fall in a range of royalty rates. Moreover, Ericsson does not believe it is possible to establish a single framework for deciding all possible FRAND issues that could arise in future Section 337 investigations. FRAND undertakings made within different standard-setting organizations vary and different facts will inevitably arise in each dispute. Nevertheless, Ericsson expects that both qualitative and quantitative evidence will be useful in determining whether a patent holder and its licensing offer comply with its FRAND undertaking. This evidence will include the scope, importance, and value of the patents, the full range of all patents in the industry essential to the standard at issue, comparable licenses, the patent holder's contributions in developing the standard, the value of the standard to the infringing product, the relevant industry's norms for patent licensing, the patent holder's efforts to conclude a license, and the accused infringer's willingness to enter into good-faith negotiations.

Finally, in Ericsson's view, the accused infringer's rejection of, or its failure to timely accept or timely negotiate, a FRAND licensing offer is a prerequisite to a finding that the patent holder has satisfied its FRAND undertaking. It is also a near-universal prerequisite<sup>1</sup> to an exclusion order based on a patent subject to a FRAND undertaking.

Sincerely,



John Moore  
*Vice President and General Counsel*  
Ericsson Inc.

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<sup>1</sup> Some FRAND commitments allow the patent holder to seek reciprocity with respect to standard-essential patents held by the licensee. If a licensee refuses to reciprocate, then an exclusion order may be appropriate in that circumstance as well.



July 9, 2012

**By Electronic Filing**

The Honorable Lisa R. Barton  
Acting Secretary to the Commission  
U.S. International Trade Commission  
500 E Street, S.W.  
Washington, DC 20436

RE: *In the Matter of Certain Wireless Communication Devices, Portable Music Players and Data Processing Devices, Computers, and Components Thereof, Investigation No. 337-TA-745*

Dear Secretary Barton:

Ericsson Inc. and its related companies ("Ericsson") make the following statement in response to the U.S. International Trade Commission's (the "Commission") invitation for written submissions on issues of public interest in Investigation No. 337-TA-745. Ericsson believes that a declared standard-essential patent should be eligible for entry of an exclusion order. However, the Commission should not issue an exclusion order under a standard-essential patent if the patent holder has failed to abide by its commitment to offer a license on reasonable and non-discriminatory ("RAND") terms, as prescribed by the relevant standard-setting organizations.

Ericsson advocates this policy as an optimal middle ground between the more extreme positions advocated by others. Entirely ignoring a patent holder's commitment to license on RAND terms will disserve the public interest because holders of standard-essential patents could arbitrarily exclude products from the U.S. market, causing increased prices and reduced consumer choice. But a policy that entirely precludes an exclusion order with respect to standard-essential patents serves the public interest no better. The elimination of an established and effective means to enforce standard-essential patents against unwilling licensees would discourage companies such as Ericsson from contributing to open standards, with their demonstrated benefits of improving consumer choice, lowering prices, and encouraging ongoing innovation. To ensure that standards remain truly open and continue to develop in the future, the Commission should adopt the balanced approach proposed by Ericsson: permitting an exclusion order if the patent owner complies with its RAND obligations.

**1. Ericsson's Interest in this Investigation**

Ericsson employs more than 100,000 employees who have pioneered the development of the modern cellular network. Over 1,000 networks in more than 180 countries use Ericsson equipment, and more than 40 percent of the world's mobile traffic passes through its networks. In the United States, Ericsson employs more than 10,000 people and supplies network equipment and/or services to every major U.S.

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telecommunications operator from offices in California, Colorado, Georgia, Illinois, Kansas, New Jersey, New York, Texas, and Washington, among others.

Looking to the future, Ericsson sees an even more connected world, in which there will be more than fifty billion connected devices, all of which will require better networks and greater capacity. To meet that need, Ericsson currently devotes more than twenty thousand employees and almost 15% of its net sales to research and development, much of which is focused on creating open standards for telecommunications. For example, Ericsson has been a major contributor to the development of the enabling global standards for mobile telecommunications over the last 25 years, and has invested billions of dollars in this effort. Ericsson's contributions to open standards are widely recognized, including awards in 2010 and 2011 for its contributions to the 4G LTE standards by Informa Telecoms & Media.

Ericsson's innovations have been rewarded with 30,000 issued patents worldwide. Ericsson has successfully licensed its patent portfolio with more than 90 patent license agreements in place, and Ericsson uses the associated royalties to fund its continued contribution to the development of tomorrow's telecommunications standards.

## **2. Open Standards and RAND Licensing Benefits Consumers**

Open standards ensure worldwide interoperability between networks, devices, and network operators. This is true for both data communication protocol standards and telecommunications standards, such as the 2G, 3G, and emerging 4G LTE cellular standards to which Ericsson heavily contributes.

Telecommunications standards, in particular, comprise a set of specifications that specify complete "blueprints" for commercial networks and products. Here, standardization does not involve a standards-setting organization merely adopting an existing standard. Rather, the standardization process more closely resembles a competition among industry players to find the best solutions to the technical challenges underlying the standards, such as increased data rates, reliability, and security. The participants invest significant time and resources in conceptualizing, modeling, and testing the solutions that they contribute to the standard. In a typical situation, Ericsson and other innovating companies make competing technical proposals, each protected by the contributor's patent filings, to overcome the challenges. Importantly, this is a risky investment of precious research and development resources; the expenditures must occur years before any products are actually manufactured or sold, and without any guarantee that the solutions will be incorporated into the standard. This process results in a state-of-the-art complete system specification, and only the very best technical solutions are actually incorporated into the standard.

The open standards that result from this process hugely benefit consumers and the competitive economic conditions in the United States. Open standards create wider choices for consumers, reduce prices, and improve product quality. More choices are available to consumers because the RAND commitment applies outside of the relevant standard body's membership; anyone who wishes to implement a standard can rely on



innovators' RAND commitments for access at a reasonable cost. Therefore, the market is accessible for new players to launch competitive and successful products without any investment in the multi-year process to develop the enabling standards. And many new vendors have taken advantage of the system and emerged as market leaders, even though they were not previously invested in the sector.

As a result of the increased choices, consumers pay less for better telecommunications products and services. The telecommunications sector has enjoyed remarkable growth in the last two decades, providing affordable communication to billions of people worldwide. Prices have fallen and, at the same time, products and services have continuously improved with new standardized technologies generating enhanced performance and new features for consumers, such as mobile broadband Internet access, music and video streaming, social networking, location-based services, and online gaming.

RAND licensing facilitates the standardization process and is a critical element of future standards development. As explained above, the standardization process requires major and early investments in collaborative, rather than proprietary, research and development. The early investment, although risky and costly to the participants in the standard-setting process, must be maintained to continue development of open global standards in the future. RAND licensing has provided the necessary incentives for innovators to direct research and development resources to standardization efforts, and will continue to do so in the future if left unchanged. Therefore, the system must continue to protect patent rights for individual contributions to standards and allow the necessary means to enforce them. It is a prerequisite for the underlying business models of participants in standard-setting, as recognized by key standard-setting organizations, such as the European Telecommunications Standards Institute<sup>1</sup> ("ETSI"):

IPR holders whether members of ETSI and their AFFILIATES or third parties, should be adequately and fairly rewarded for the use of their IPRs in the implementation of STANDARDS and TECHNICAL SPECIFICATIONS.<sup>2</sup>

Removing or limiting possibilities for a return on investments in standardization would undermine incentives for technology developers to invest in open, standardized technology and instead encourage a shift towards proprietary technologies. Eventually, this could threaten interoperability between equipment from different vendors, leading to consumer lock-in and reduced consumer choice.

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<sup>1</sup>Although ETSI is based in France, the fair, reasonable, and non-discriminatory – FRAND – commitments made within ETSI are frequently the subject of patent litigation in the United States.

<sup>2</sup>ETSI Intellectual Property Rights Policy at 3.2, *available at* <http://www.etsi.org/WebSite/document/Legal/ETSI%20IPR%20Policy%20November%202011.pdf>.

### 3. Exclusion Orders Should Be Available for Essential Patents

To continue the rapid development of open standards and maintain the balance between access and the incentive to contribute, exclusion orders should remain available for standard-essential patents. The right of a patent holder to seek and, under appropriate circumstances, obtain exclusionary relief is one of the basic rights of patent holders to prevent others from using their patented inventions. Essential patents asserted at the Commission should be no exception to this universal rule. In situations where essential patent holders have exhausted reasonable negotiating efforts and offered a license on RAND terms, it is legitimate for them to seek and, under appropriate circumstances, obtain an exclusion order against a potential licensee that is unwilling to accept a license on RAND terms in a timely fashion.

A RAND commitment is a contractual undertaking,<sup>3</sup> and should be evaluated by analyzing the plain language of the particular commitment, which may vary from one standard-setting organization to another. In ETSI, for example, members commit that they are “prepared to grant irrevocable licences on fair, reasonable and non-discriminatory terms and conditions.”<sup>4</sup> The Alliance for Telecommunications Industry Solutions, a U.S. based standard-setting organization, requires a similar commitment from its members: “a license to such essential patent claim(s) will be made available to applicants desiring to utilize the license for the purpose of implementing the standard either: (i) under reasonable terms and conditions that are demonstrably free of any unfair discrimination; or (ii) without compensation and under reasonable terms and conditions that are demonstrably free of any unfair discrimination.”<sup>5</sup> Nothing in the language of these commitments foregoes injunctive relief or exclusion orders. Both United States and European regulators have expressed this view when considering the effects of exclusion orders or other forms of injunctive relief on public interest and competition. In its earlier submission in this investigation, the U.S. Federal Trade Commission (“FTC”) stated its belief that the Commission could issue an exclusion order with respect to an essential patent if a reasonable licensing offer has been made:

[T]he ITC could find that Section 337’s public interest factors support denial of an exclusion order unless the holder of the RAND-encumbered [essential patent] has made a reasonable royalty offer.<sup>6</sup>

Likewise, the European Commission has stated that:

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<sup>3</sup>*Microsoft Corp. v. Motorola Mobility, Inc.*, No. 2:10-CV-01823, 2012 U.S. Dist. LEXIS 24226, at \*18 (W.D. Wash. Feb. 27, 2012) (“through Motorola’s letters to both the IEEE and ITU, Motorola has entered into binding contractual commitments to license its essential patents on RAND terms”).

<sup>4</sup>ETSI Intellectual Property Rights Policy at 6.1.

<sup>5</sup>ATIS Operating Procedures at 10.4, at <http://www.atis.org/legal/Docs/OP/atisop.pdf>.

<sup>6</sup>Third Party FTC’s Statement on the Public Interest, 337-TA-745 at 4 (June 6, 2012).



[T]he seeking or enforcement of injunctions on the basis of [standard-essential patents] is also not, of itself, anti-competitive. In particular, and depending on the circumstances, it may be legitimate for the holder of [standard-essential patents] to seek an injunction against a potential licensee which is not willing to negotiate in good faith on FRAND terms.<sup>7</sup>

Ericsson fully agrees. A typical RAND commitment requires an essential patent owner to offer a license on reasonable terms. If an unwilling licensee refuses the offer or otherwise fails to accept the offer in a timely manner, the patent owner may then enforce its patent using any means available, including an exclusion order from the Commission.

The issuance of an exclusion order is frequently the impetus necessary to push the parties to negotiate a global license to a portfolio of essential patents on RAND terms. In fact, Section 337 reflects Congress' recognition that damages may not be sufficient and, in certain cases, the protection of American industry requires exclusionary relief. Without the potential for an exclusion order, licensees would be motivated to serially litigate patent infringement claims against a patent owner with a large portfolio of essential patents and, if they lose, merely pay the royalty attributable to the subset of patents that were at issue in the trial. Permitting this conduct would incentivize infringers to increase the time and cost of enforcement, which in turn will be leveraged in negotiations to produce sub-RAND licensing terms. Royalties should be measured by the relative value of the patent holder's overall contribution to the standard rather than the transaction costs of litigation. This problem would be particularly damaging for Ericsson and other large contributors to standards-setting organizations, who own portfolios of hundreds of essential patents. Overall, depriving patent owners of exclusion orders and other forms of injunctive relief would discriminate against those who have significantly invested in standards in favor of those who have chosen to invest in proprietary technology, and undermine the incentive for future investments in open standards.

#### **4. "Patent Holdup" Does Not Require the Complete Elimination of Exclusion Orders for Essential Patents**

The entities that seek to unconditionally preclude essential patent holders from seeking exclusion orders express concern over the potential for "patent hold-up," *i.e.* the possibility that royalties will be based on the transaction costs of switching from one standardized technology to another rather than a more appropriate measure of the value of the patented inventions. Like the FTC, Ericsson believes that "patent hold-up" with respect to essential patents can be eliminated by less draconian measures than a blanket

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<sup>7</sup>Case No. COMP/M.6381 – Google/Motorola Mobility, European Commission decision pursuant to Article 6(1)(b) of Council Regulation No 139/2004, February 13, 2012, available at [http://ec.europa.eu/competition/mergers/cases/decisions/m6381\\_20120213\\_20310\\_2277480\\_EN.pdf](http://ec.europa.eu/competition/mergers/cases/decisions/m6381_20120213_20310_2277480_EN.pdf).



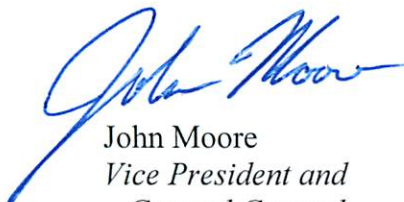
prohibition on exclusion orders.<sup>8</sup> Moreover, recent decisions from federal district courts, as well as foreign courts in Germany, the Netherlands, and the United Kingdom, show that decision-makers, such as the Commission, are capable of refusing injunctive relief and exclusion orders when licensing offers were deemed not to be RAND, or there was an absence of good faith negotiation.

## 5. Conclusion

It is important to recognize the role that standard-essential patents play in the formation of open global standards. Many talented companies and other organizations contribute cutting-edge technology to standard-setting organizations. The resultant standards enable new products and services that better serve the end-user customers. New entrants to the market can build exciting and innovative products that take advantage of the standards with minimal impediments to entering the market, especially in the case of telecommunications where open standards provide complete “blueprints” for a product. Companies that contribute to the standards receive reasonable licensing fees that enable contributions to future standards.

Permitting an exclusion order when a patent holder has not complied with its RAND commitment would upset this balance by effectively taking the openness out of open standards. But adopting a blanket prohibition on exclusion orders would serve the public interest no better. Not only does it enlarge a RAND commitment beyond its original scope, but such a decision has the potential to devalue essential patents and discourage future contributions to open standards. In Ericsson’s opinion, retaining patent rights for individual contributions to standards, and the necessary means to enforce them, is a prerequisite for future development of standardized technologies. Therefore, the Commission should issue an exclusion order related to a standard-essential patent if the patent holder has fulfilled its commitment to offer a license on RAND terms.

Sincerely,



John Moore  
*Vice President and  
General Counsel*  
Ericsson Inc.



John Han  
*Vice President, IPR and Licensing,  
Patent Assertion*  
Ericsson Inc.

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<sup>8</sup>Third Party FTC’s Statement on the Public Interest, 337-TA-745 at 4 (June 6, 2012) (stating that the Commission could deny an exclusion order based on the public interest factors if no reasonable licensing offer had been made or delay an exclusion order until good faith negotiations occurred).