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<u>Inv. No. 337-TA-794</u>

Dear Secretary Barton:

I respectfully submit these comments on behalf of Qualcomm Incorporated in response to the Notice of Commission Determination to Review the Final Initial Determination; Schedule for Filing Written Submissions on the Issues Under Review and on Remedy, Public Interest, and Bonding in the Matter of *Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers*, Inv. No. 337-TA-794, issued on November 19, 2012 (the "Commission Request"). My comments below specifically address Requests numbered (1) and (2) in that Notice.

I. STATEMENT OF INTEREST

Qualcomm applauds the Commission for recognizing the substantial interest of non-parties in the issues for which it has sought comments, and is grateful to the Commission for inviting and considering its comments. Qualcomm is one of the world's leading communications technology development and licensing companies. Understanding that research and development ("R&D") is the lifeblood of innovation, Qualcomm invests enormous amounts in developing new technologies, in particular cellular communications and other advanced communications technologies: $3 billion in 2011, rising from $2.5 billion the year before. Qualcomm also holds a significant patent portfolio covering its inventions, containing over 33,000 patents, which it licenses worldwide to more than 200 licensees, and Qualcomm has over 77,000 patent applications pending worldwide. In addition, Qualcomm is a leading supplier of chipsets for wireless devices, and is the fourth largest chipset supplier in the world. Qualcomm also licenses intellectual property from third parties. Because industry standards are prevalent for cellular devices and infrastructure equipment, as well as other communications products, Qualcomm is a very active and longstanding participant in numerous Standard Setting Organizations ("SSOs"). As a member of the European Telecommunication Standards Institute ("ETSI")—the SSO immediately relevant to the issues before the Commission in the present proceeding—Qualcomm has actively participated over the years in multiple deliberations within that organization concerning proposals to change ETSI's intellectual property policy as it relates to Fair, Reasonable, and Non-Discriminatory ("FRAND") commitments[1] and licensing of standards-essential patents ("SEPs").

Qualcomm's business model situates it at the intersection of the licensor/implementer tension. Since Qualcomm is both a technology licensor *and* a supplier of chipsets for incorporation into equipment that implements standardized technologies, Qualcomm's business success depends on access to others' patents and the ability to monetize (and if necessary enforce) its own patents—including SEPs[2] and other, non-standards-essential patents. Over the years, Qualcomm has participated in ITC investigations as both a petitioner and a respondent, and has developed a significant understanding and appreciation of the Commission's role in the adjudication of intellectual property rights.

Qualcomm is therefore particularly well placed to answer the Commission's questions about the framework that should be used to evaluate whether a patent holder's offer of a license to SEPs complies with an obligation to make such an offer on FRAND terms, and whether a patent holder's FRAND undertaking engages the public interest exception to the availability of an exclusion order under Section 337 of the Tariff Act.[3]

II. A FRAND COMMITMENT IS A CONTRACTUAL OBLIGATION BETWEEN THE PATENT HOLDER AND THE SSO, AND SHOULD BE INTERPRETED ACCORDING TO PRINCIPLES OF CONTRACT LAW.

The Initial Determination concluded that certain Apple products do not infringe four U.S. patents held by Samsung.[4] Two of those patents had been disclosed by Samsung as potentially essential to practicing the UMTS cellular communications

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[1] Because the ETSI Intellectual Property Rights ("IPR") Policy uses the term "fair, reasonable, and non-discriminatory", we use the term FRAND undertaking or FRAND commitment in this submission with reference to the ETSI policy and undertakings made to ETSI. Other IPR Policies, such as those of the ITU and IEEE, call for undertakings on "RAND" terms, and FRAND/RAND are commonly used interchangeably.

[2] While this submission refers to SEPs, we note that the FRAND undertaking requested in the ETSI IPR Policy relates to "ESSENTIAL" IPRs—*i.e.*, IPR(s) "to the extent that the IPR(s) are or become, and remain ESSENTIAL to practice" the standard. *See* ETSI Rules of Procedure, 30 November 2011, Annex 6 - Appendix A: IPR Licensing Declaration forms [hereinafter ETSI IPR Policy], www.etsi.org/website/aboutetsi/iprsinetsi/iprsinetsi.aspx.

[3] 19 U.S.C. § 1337(d)(1).

[4] Commission Request at 2.

standard promulgated by ETSI,[5] and for both of those patents Samsung made a FRAND commitment to ETSI. As to these, the ALJ held that the terms offered by Samsung complied with its FRAND obligation.[6]

The Commission's first two Requests concern the enforcement of a FRAND commitment by the ITC. First, the Commission asks whether the existence of a FRAND undertaking *ipso facto* precludes issuance of an exclusion order under all circumstances, and in light of the Commission's statutory mandate.[7] Second, the Commission asks what analytical framework should be used to determine whether an offer—if made—complies with a FRAND undertaking.[8]

At the outset, we note that, if the ALJ correctly held that the Apple products at issue do not infringe the two patents that Samsung disclosed to ETSI, then there is no FRAND obligation at issue in the present case. This is because if the patents are not infringed by the accused standards-compliant products, then they are not in fact essential.[9] And, while ETSI requests that members making a technical proposal for a standard disclose any of that member's IPR which "*might* be" essential if that proposal is adopted,[10] the FRAND undertaking itself only relates to the licensing of patents that actually "*are or become, and remain*" essential.[11] Thus, the ITC Staff were correct in recognizing that Samsung's declarations to ETSI on their own merely establish that "Samsung *may* have FRAND obligations".[12] If, however, the Commission reverses the

[5] *Certain Elec. Devices, Including Wireless Commc'n Devices, Portable Music and Data Processing Devices, and Tablet Computers*, Inv. No. 337-TA-794, at 454, 464 (Sept. 14, 2012) (Final Initial Determination) [hereinafter Initial Determination].

[6] *Id.* at 469-70.

[7] "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." Commission Request at 3.

[8] "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?" *Id.*

[9] One exception to this rule, inapplicable here, applies to patents that are essential to an optional portion of a standard. In this circumstance, one could implement one "option" set out by a standard without infringing a patent essential to another "option".

[10] Initial Determination at 471 (quoting ETSI IPR Policy at § 4.1) (emphasis added).

[11] ETSI IPR Policy, Appendix A ("[T]he Declarant hereby irrevocably declares that it and its AFFILIATES are prepared to grant irrevocable licenses under its/their IPR(s) on terms and conditions which are in accordance with Clause 6.1 of the ETSI IPR Policy, in respect of the STANDARD(S), TECHNICAL SPECIFICATION(S), or the ETSI Project(s), as identified above, *to the extent that the IPR(s) are or become, and remain ESSENTIAL to practice that/those STANDARD(S) or TECHNICAL SPECIFICATION(S)*. . . ." (emphasis added)) (IPR Licensing Declaration forms).

[12] Initial Determination at 460 (emphasis added).

Initial Determination and finds that the patents are both infringed and essential, and with respect to other circumstances involving SEPs, then the remarks below are relevant.

The starting point is to recognize a FRAND commitment for what it is: an enforceable contract voluntarily entered into by private parties, rather than a creation of statute, economic theory, or abstract public policy. No legislative, executive, or judicial body has created FRAND undertakings and imposed them on holders of SEPs. Instead, a patentee voluntarily makes a FRAND commitment to an SSO as part of the SSO's standards-setting work, and implementers of the standard are third-party beneficiaries of that contractual commitment.[13] Courts across this country have recognized the contractual nature of a FRAND commitment,[14] and have rightly indicated that they will enforce a patentee's voluntary, contractual FRAND undertaking.

Because a FRAND commitment is a creature of contract, its content—like that of any contract—must be found by means of ordinary principles of contract interpretation, looking first to the plain meaning of the agreement, and then, where not clearly answered by the agreement's plain language, to the intention and understanding of the parties who formed the contract at the time of formation. The "parties" to a FRAND undertaking are the SSO that has promulgated an IPR policy on the one hand, and the SSO member and patent owner who makes a FRAND commitment under the terms of that policy on the other. Three lines of inquiry will shed the most light on the "intent of the parties". First, the Commission (like any court) should look to the *written agreements, policies, and procedures* of the relevant SSO at the time the particular FRAND commitment was made.[15] Second, the Commission should look to the *deliberative history of the IPR policy at issue* within the SSO that has framed that policy. The history of deliberations and debates, including the adoption of some proposals and rejection of others, can say much about both the "intent" and the understanding of the SSO and its members. Third, the Commission should look to *licensing and negotiation*

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[13] *See Microsoft Corp. v. Motorola, Inc.*, 864 F. Supp. 2d 1023, 1032 (W.D. Wash. 2012) ("Additionally, the court reaffirms its prior decision that Microsoft, as a potential user of the 802.11 Standard and the H.264 Standard, is a third-party beneficiary to the agreements between Motorola and the IEEE and Motorola and the ITU.").

[14] *See, e.g.*, *Research in Motion Ltd. v. Motorola, Inc.*, 644 F. Supp. 2d 788, 797 (N.D. Tex. 2008) (declining to dismiss breach of contract claims based on alleged broken promise to license on FRAND terms); *Ericsson Inc. v. Samsung Elecs. Co.*, No. 2:06-CV-63, 2007 WL 1202728, at *2-3 (E.D. Tex. Apr. 20, 2007) (recognizing that a dispute on FRAND terms is a contractual dispute and separate from questions of patent law).

[15] Similarly, in the context of interpreting the meaning of SSO disclosure obligations, Administrative Law Judge Pender was precisely correct when he wrote that "the *sine qua non* for . . . any analysis for unclean hands, as it would pertain to this case, are the written ETSI agreements, directives, policies, procedures, etc., establishing Motorola's duty or obligation of disclosure". *Certain Wireless Commc'n Devices, Portable Music and Data Processing Devices, Computers and Components Thereof*, Inv. No. 337-TA-745, at 148 (Apr. 24, 2012) (Initial Determination on Violation of Section 337).

custom and practice in the relevant industry, which will have much to do with what the participants in that industry consider to be "reasonable".[16]

These are all fact-specific inquiries, and as a result FRAND cannot be treated as an abstract and unitary legal rule. While many SSOs have developed comparable FRAND-based IPR policies,[17] FRAND commitments do vary between different SSOs—and over time within an individual SSO[18]—as the IPR policies of SSOs evolve. In the case presently before the Commission, the task is to analyze the intent of the parties to the IPR Policy of ETSI at the time the relevant FRAND commitment was made.

The Commission should thus give little or no weight to proposals for analytical frameworks to determine compliance with FRAND that are not grounded on its plain meaning or the intent of the parties to the FRAND commitment, as ascertained through ordinary principles of contract interpretation. Evaluating a FRAND commitment under principles of contract interpretation is correct as a matter of law and fact. It is also important as a practical matter. Giving effect to the parties' intent ensures that commitments made to SSOs have the same consequences as any other contractual agreements regarding valuable IPR—stability and fundamental fairness for all participants. This stability, in turn, encourages greater participation in standardization by all interested parties, regardless of their business model. SSOs facilitate private efficiency-enhancing coordination in the marketplace by bringing together participants with varying interests—chiefly innovators and implementers.[19] SSOs are able to function so long as they adopt rules that make acceptable tradeoffs between the competing interests of their members and do not undermine the ability to attract broad membership.[20] One such tradeoff has been the adoption of flexible but binding FRAND-

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[16] *See* Initial Determination at 470 (holding that Samsung's offer complied with its FRAND obligation and specifically noting the lack of "evidence of customs and practices of industry participants showing that Samsung's demand is invidious with respect to Apple").

[17] For instance, we are not aware of any SSO IPR policy that includes a blanket exclusion of injunctive or similar relief for patents subject to a FRAND commitment.

[18] For example, § 6.1 of the ETSI IPR Policy provides:

> "When an ESSENTIAL IPR relating to a particular STANDARD or TECHNICAL SPECIFICATION is brought to the attention of ETSI, the Director-General of ETSI shall immediately request the owner to give within three months an *irrevocable* undertaking in writing that it is prepared to grant irrevocable licences on fair, reasonable and non-discriminatory terms and conditions under such IPR . . .". *Id.* (emphasis added).

The word "irrevocable" preceding "undertaking" was added by consensus in 2008 to clarify that the FRAND undertaking is irrevocable once made. To be clear, such amendments to an SSO policy cannot retroactively impact existing FRAND commitments, which continue to be governed by the policy in place at the time of the undertaking.

[19] *See* Richard A. Epstein, F. Scott Kieff & Daniel F. Spulber, *The FTC, IP, and SSOs: Government Hold-Up Replacing Private Coordination,* 8 J. COMPETITION L. & ECON. 1, 10-13 (2012).

[20] *See id.*

based IPR policies. In the case of cellular telephony and ETSI, empirical real-world experience shows that this very flexibility—which appears to annoy many commentators—has been radically successful in: (a) motivating industry participants to invest heavily in the R&D that has transformed and re-transformed that industry and the world over the last three decades; (b) enabling ETSI and other SSOs to develop high-quality standards utilizing cutting-edge technology; while (c) making the necessary intellectual property available to implementers on terms that have enabled rapid growth of the market and repeated entry of new competitors.[21] Efforts by some technology implementers to wield FRAND commitments as a blunt weapon to reduce their own input costs for valuable technology to which they did not contribute have nothing in common with the complex and balanced goals of SSOs, and no legitimate basis in the cautiously flexible rules that SSOs have adopted in order to achieve those goals.

III. SAMSUNG'S FRAND COMMITMENT TO ETSI DOES NOT CATEGORICALLY PRECLUDE THE ISSUANCE OF AN EXCLUSION ORDER.

A. Under the ETSI IPR Policy, a FRAND Commitment Does Not Waive the Right to Seek an Exclusion Order Against Unlicensed Infringers.

The historical and documentary record of the ETSI IPR Policy has previously been investigated in detail, and is well documented.[22] The evidence is decisive that the ETSI membership expressly did *not* agree—and that ETSI members making FRAND commitments are not asked to and do not agree—to a categorical waiver of injunctive relief (including exclusion orders).[23]

First, the language of the ETSI IPR Policy itself is utterly *silent* on the question of injunctive relief in any form (including exclusion orders). Thus any contention that the right to an injunction has been waived by an IPR holder making a

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[21] *See generally* Keith Mallinson, WiseHarbor, *A Compendium of Industry and Market Analysis Articles on Intellectual Property in Mobile Communications Standards* (June 12, 2011), www.ftc.gov/os/comments/patentstandardsworkshop/00007-60459.pdf; Roger G. Brooks, *Patent "Hold-Up," Standards-Setting Organizations, and the FTC's Campaign Against Innovators*, 39 AIPLA Q.J. 435 (2011).

[22] *See* Roger G. Brooks & Damien Geradin, *Taking Contracts Seriously: The Meaning of the Voluntary Commitment to License Essential Patents on "Fair and Reasonable" Terms*, in Intellectual Property and Competition Law: New Frontiers 389, 395-401 (Steven Anderman & Ariel Ezrachi, eds., 2011) [hereinafter Brooks & Geradin, *Taking Contracts Seriously*]; Roger G. Brooks & Damien Geradin, *Interpreting and Enforcing the Voluntary FRAND Commitment*, 9 INT'L J. IT STANDARDS & STANDARDIZATION RESEARCH, Jan.-June 2011, at 1, 5-10, *available at* ssrn.com/abstract=1645878.

[23] While the ETSI history on this topic primarily pertains to the availability of injunctive relief, it applies equally to exclusion orders and cease and desist orders, which are remedies available from the ITC analogous to injunctive relief. For the sake of convenience, this discussion focuses on exclusion orders, but the comments apply to ITC cease and desist orders as well.

FRAND commitment to ETSI would have to be by implication or inference, an inference strongly disfavored by law.[24]

Second, no implication or inference that the right to an injunction has been waived is possible with respect to the ETSI IPR Policy. Language whereby a patentee making a FRAND commitment would have waived all right to injunction was debated and briefly included in an IPR policy adopted in 1993.[25] However, when the current policy was adopted in 1994, that provision was *removed*.[26] The *only* reasonable inference from this sequence is that the ETSI membership turned their minds to the question of waiver of injunction and affirmatively decided to *exclude* any such waiver from the content of the FRAND commitment.[27]

One court, considering both the ETSI and IEEE IPR Policies, followed exactly this contract-based analysis. In rejecting Apple's claim that Motorola had waived its right to an injunction based on its FRAND commitment, the court started by acknowledging that "whether Motorola breached its contracts with ETSI and IEEE by seeking an injunction is a question that must be resolved using principles of contract law, not on the basis of economic policy or equitable principles". *Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-cv-178, 2012 WL 5416941, at *15 (W.D. Wis. Oct. 29, 2012). Then, addressing the IPR Policies of ETSI and the IEEE, the court recognized that none of the provisions relating to FRAND commitments expressly preclude injunctive relief, and that Apple had pointed "to no provisions in the contract from which [the court] could draw that inference". *Id.* Finally, to resolve any doubts, the court held that:

> There is no language in either the ETSI or IEEE contracts suggesting that . . . the standards-setting organizations intended or agreed to prohibit Motorola from seeking injunctive relief. In fact, both policies are silent on the question of injunctive relief. Moreover, in light of the fact that patent owners generally have the right to seek injunctive relief both in district courts, 35 U.S.C. § 283, *and in the International Trade Commission, 19 U.S.C. § 1337(d)*, I conclude that any contract purportedly

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[24] *See Groves v. Prickett*, 420 F.2d 1119, 1125-26 (9th Cir. 1970) ("As minimum requirements to constitute an 'implied waiver' of substantial rights, the conduct relied upon must be clear, decisive and unequivocal of a purpose to waive the legal rights involved. Otherwise, there is no waiver.").

[25] *See, e.g.*, Brooks & Geradin, *Taking Contracts Seriously, supra* note 19, at 406-07.

[26] *Id.*

[27] *See, e.g.*, *Long Island Univ. Faculty Fed'n, Local 3998 v. Bd. of Trustees of Long Island Univ.*, 457 N.Y.S.2d 325, 326-27 (N.Y. App. Div. 1982) (upholding arbitrator's award that viewed as relevant to a contract's interpretation the removal of a word from that contract during negotiations).

> depriving a patent owner of that right should clearly do so. The contracts at issue are not clear. *Id.* (emphasis added).[28]

B. The Public Interest Requires the Continued Possibility of Exclusion Orders Where the Patent-Holder Has Complied with Its FRAND Undertaking.

While the contractual analysis is decisive, we also point out that a blanket rule eliminating the availability of exclusion orders against unlicensed infringers of patents subject to a FRAND commitment would be contrary to the public interest, which requires consideration of the facts and circumstances of each case.

First, in circumstances where, for example, a patentee has offered to grant a license on FRAND terms, but the infringer refuses to negotiate in good faith, a rule eliminating an exclusion order as a remedy in all circumstances would punish the patentee by depriving it of the statutory remedy to which it is entitled upon a showing of infringement of a valid patent, and weaken its legitimate rights in its patent portfolio. This would undermine the public interest both in a strong patent system to encourage innovation and investment-based risk, and in the avoidance of litigation in favor of reaching negotiated agreements, and it would also severely and inappropriately penalize the giving of FRAND commitments, thus impairing the ability of standards bodies to encourage participation and contribution of new technologies. If fundamental patent rights are swept away, without regard for the desires or intent of the SSO members, innovators and contributors to the standardization process of valuable technology protected by intellectual property rights would be incentivized to reduce investments in R&D and shift to a strategy of free-riding on the R&D investments of others, which will be available at artificially depressed royalty rates, to decline to contribute their technologies to standards, and to decline to make FRAND commitments.[29] This, of course, would impede the development of the best technical solutions available—one of the primary goals of SSOs. And in some industries and settings, it could lead to the proliferation of non-complementary and competing proprietary technologies, rather than standardized complementary ones, thus diminishing the procompetitive and efficiency-enhancing effects fostered by standardization.

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[28] The recent district court decision in *Apple, Inc., v. Motorola, Inc.*, No. 11-CV-08540, 2012 WL 2376664 (N.D. Ill. June 22, 2012) (Posner J.), neither refers to nor takes into account this history, *id.* at *12-22, and therefore is of little persuasive value on the question of whether a FRAND undertaking pursuant to the ETSI IPR Policy precludes the availability of injunctive relief. As the Court in the Western District of Wisconsin observed, Judge Posner "never refer[red] to the ETSI or IEEE policies as 'contracts'", and cited only "policy and economic arguments, not contract provisions" when addressing the availability of injunctive relief after making a FRAND commitment. *Apple*, 2012 WL 5416941, at *14.

[29] *See Sanofi-Synthelabo v. Apotex, Inc.*, 470 F.3d 1368, 1383 (Fed. Cir. 2006) ("[T]he encouragement of investment-based risk is the fundamental purpose of the patent grant and is based directly on the right to exclude." (internal quotation marks omitted)); *Celsis In Vitro, Inc. v. CellzDirect, Inc.*, 664 F.3d 922, 931 (Fed. Cir. 2012) ("We have long acknowledged the importance of the patent system in encouraging innovation".) (internal quotations marks omitted)).

Second, where a standardized product truly faces no meaningful competitive alternatives, this Commission's statutory mandate already gives it flexible discretion, under the public interest exception, to refuse an exclusion order—but only after balancing other considerations, including the importance of protecting patent rights and incentives to take licenses voluntarily. By contrast, a blanket rule against exclusion orders in relation to SEPs subject to FRAND commitments—regardless of competitive conditions in the U.S. economy, the availability of "like or directly competitive articles in the United States", or the actual impact of an exclusion order on consumers in the U.S.[30]—would "hold up or frustrate Section 337 investigations"[31] and strip the Commission of its ability to address infringing conduct affecting vast swaths of the economy. The ironic outcome of such a rule would be that the ITC, which is recognized as one of the most efficient, timely, and effective venues in the United States for enforcing patent rights, would be divested of the ability to enforce patents that are often the most valuable and fundamental to a given technology or industry. Such a blanket-rule outcome is neither desirable from a policy perspective nor appropriate from a contractual perspective.

C. Failure to Offer FRAND Terms to an Implementer Willing to Negotiate in Good Faith Can and Should Preclude the Patent Holder from Obtaining an Exclusion Order.

While it is correct that an ETSI FRAND commitment (or a RAND commitment pursuant to the IPR policy of another SSO) does not waive or exclude injunctive relief against an unlicensed infringer, it is also well recognized that a court, after considering all the relevant evidence, may decline to issue an injunction when the infringer would in fact be licensed *but for* the failure of the patentee to comply with its FRAND commitment. This results from the doctrine of estoppel within the Common Law context,[32] and the same result is reached under different doctrinal names in Civil Law countries.[33]

A similar result seems appropriate, important, and achievable by the Commission within the statutory framework of the Tariff Act. ETSI's purpose in requesting a FRAND commitment is twofold: (i) to reduce the risk that patents essential to practicing the standard are unavailable to implementers; and (ii) to make certain that

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[30] 19 U.S.C. § 1337(d)(1).

[31] Initial Determination at 462. As the ALJ noted, "As a practical matter, if the ITC were precluded from performing its mandate as set forth in the authorizing statute, an infringing party could, by making unrealistic counter-offers to the patent holder, while claiming that such counter-offers more accurately reflect FRAND than the offers proposed by the patent holder, hold up or frustrate Section 337 investigations." *Id.*

[32] *See A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020, 1042 (Fed. Cir. 1992) (en banc).

[33] *See Samsung v. Apple*, Arrondissementsrechtbank[Rb.]'s-Gravenhave, IER 2012, 10 m.nt FE, at ¶¶ 4.27-4.39 (Dist. Ct. The Hague Oct. 14, 2011).

patent holders are fairly and adequately rewarded for the use of their patents.[34] Given the clear intent and the voluntary nature of the FRAND commitment, the ITC is entitled to conclude, after reviewing the relevant evidence in a particular case, that the public interest would be damaged by entering an exclusion order against a party that would be licensed if the patentee had complied with its FRAND obligations.

Not surprisingly, at least one ALJ has accepted the fundamental premise that an equitable FRAND defense may be invoked by an accused infringer in Commission proceedings—just as it can in a federal court.[35] The ITC Staff also advocated this view before the ALJ in the current matter.[36] And this position is correct. The availability of a FRAND defense is a question that a respondent may raise in any investigation in which an essential patent subject to a FRAND commitment has been asserted. That defense should be evaluated in accordance with the specific, contractual FRAND-based policy agreed to by the members of the relevant SSO at the time the commitment was made.

IV. THE PROPER FRAMEWORK FOR DETERMINING WHETHER A PATENTEE HAS COMPLIED WITH ITS FRAND UNDERTAKING

The Commission's second Request focuses specifically on the proper methodology to be used to determine whether an offer complies with a FRAND undertaking. The Commission's Request sets the correct conceptual framework: given the nature and function of a FRAND commitment within the context of the ETSI IPR Policy, the question facing the Commission (like a court in a similar context) is *not* "What is *the* FRAND royalty or terms for these patents?", but rather, "Has the patentee acted in a manner inconsistent with its undertaking to offer to grant licenses on FRAND terms?"

A. An Offer Is Only the First Step in a Two-Party Negotiation Process.

As an initial matter, there is no structural barrier to the ITC considering whether an offer complies with FRAND.[37] Yet the enforcement of a FRAND commitment may, under particular facts, not be one that admits of a quick and easy decision by the Commission or a court. By its very nature, intellectual property licensing (like other commercial discussions) often involves long and complex negotiations, begun with an offer or a request for an offer, and continued—often over substantial periods of

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[34] ETSI IPR Policy §§ 3.1-3.2.

[35] *See Certain Wireless Commc'ns Equip., Articles Therein, and Prods. Containing the Same*, Inv. No. 337-TA-577, 2007 WL 1221125, at *4 (Feb. 22, 2007) (Order) (denying summary determination on an equitable FRAND defense because "there are material issues of fact as to" detrimental reliance).

[36] Initial Determination at 460.

[37] *See* Comments of Qualcomm Incorporated, July 9, 2012, *Certain Wireless Commc'n Devices, Portable Music and Data Processing Devices, Computers and Components Thereof*, Inv. No. 337-TA-745, at 7 (June 25, 2012) (Notice of Review).

time—with subsequent bargaining for various and often interlocking forms of consideration. A patent holder's obligation to make a FRAND offer therefore marks only the very beginning of the back-and-forth negotiation process through which a patent holder and implementer reach ultimate agreement on FRAND terms. Nothing in the terms or the history of the ETSI IPR Policy suggests any intent to permit an infringer simply to dispense with negotiation by walking away and suing if it does not like the first offer. On the contrary, ETSI has explicitly indicated its intent that parties continue to rely on private negotiations to set license terms.[38] And in fact, this is how the overwhelming majority of licenses for SEPs have been negotiated and concluded for decades.

Whether the patent holder has complied with its FRAND undertaking is therefore a question that cannot and should not be answered solely on the basis of the initial offer. Because the natural course of any negotiation involves the parties' attempts to pull each other's preferred position in one direction or another—either by changing the royalty rate itself or through other terms of the agreement, such as the royalty base, fixed or lump-sum payments, royalty caps and minimums, other forms of financial consideration, or non-financial terms such as cross-licensing rights and termination rights—the opening offer can be seen to fluctuate along a range of possible structures and terms at various stages of the negotiations, before settling in the final agreement of the parties.[39] A patent holder's decision on what to make as an opening offer is therefore heavily affected by how that patent holder expects negotiations to unfold, meaning that the offer may reasonably vary depending on the creditworthiness of the counterparty and any number of other factors, including the proposed scope of the license and length of the license term, the downstream exhaustion implications of licensing this particular counterparty, potential cross-licensing value and other forms of value-creating commercial relationships between the parties, and more.

B. FRAND Allows for a Range of Possible Outcomes.

Moving from process to substance, it is also critical to answering the Commission's second Request to understand that the terms "fair" and "reasonable" are on their face broad and permissive words. "Fair and reasonable" does not point to a singular answer. The question raised by a FRAND defense is not "What are the theoretically correct royalty terms and has the patentee offered those terms?", but "Has the infringer

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[38] *See* ETSI Guide on IPRs, § 4.1 (Nov. 30, 2011) www.etsi.org/WebSite/document/Legal/ETSI%20Guide%20on%20IPRs%20November%202011.pdf ("Specific licensing terms and negotiations are commercial issues between the companies and shall not be addressed within ETSI."); Brooks & Geradin, *Taking Contracts Seriously*, *supra* note 19, at 399-400 (noting that attempts to define FRAND or terms that are not FRAND were rejected by ETSI in 2003 and 2006).

[39] As the ALJ noted, "Patents have the attributes of personal property" and "Their value, in terms of licensing, varies according to a myriad of factors". Initial Determination at 469 (citing 35 U.S.C. § 261). "Furthermore, negotiations often involve a process of offer and counteroffer before the parties arrive at an agreed price". *Id.* at 470.

met its affirmative burden of proof to show that the offered terms, taken as a whole, fall outside the range that can be considered 'fair and reasonable'?".[40]

This flexible "range of reasonableness" understanding of FRAND finds support in the history of the ETSI IPR Policy and its twin objectives: reducing the risk that SEPs are unavailable to implementers[41], while also ensuring that "IPR holders . . . [are] adequately and fairly rewarded for the use of their IPRs".[42] It is clear from the ETSI IPR Policy negotiating history that the ETSI membership *never* intended to reduce the meaning of FRAND to a single or mathematical benchmark. On the contrary, the consensus of ETSI members has consistently resisted and rejected efforts to define FRAND in a manner that might upset the balance that was struck in the 1994 policy text.[43] Thus, post-1994 proposals that would have modified the meaning of FRAND within the ETSI IPR Policy in a more mechanical direction (most of which were directed at advancing a particular commercial interest) have never been accepted by ETSI, nor have efforts to have ETSI identify specific examples of "bad practices" that would be deemed non-FRAND.[44]

The ETSI IPR Policy also provides no support for the notion that any of the parties reasonably expected to radically alter the ordinary incentive-scheme created by patent law. Nor would altering this scheme make sense: standardized technologies are available only after innovators have spent tremendous amounts of money on high risk R&D, and turning the standardization process into a mechanism for coercing below-market compensation for SEPs would simply enable implementers to enjoy a free ride—certainly an unsustainable plan for long-term, continued innovation.

The question "What is a FRAND offer?" must therefore take into account real-world licensing practices and established values for licensed portfolios, as well as acknowledge that FRAND allows for a range of possible opening offers and a range of possible outcomes.

C. Adherence to Accepted Licensing Terms Should Provide a "Safe Harbor" for FRAND Offers.

The specific facts may in some cases permit a relatively easy resolution of the question of whether a licensor has offered terms within the "range of reasonableness". It would defy language and logic to conclude that a patentee who offers terms generally consistent with those that have been previously accepted by significant and sophisticated licensees for this same portfolio (or these same patents) under similar commercial

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[40] Brooks & Geradin, *Taking Contracts Seriously*, *supra* note 19, at 401-02.

[41] ETSI IPR Policy § 3.1.

[42] *Id.* § 3.2.

[43] Brooks & Geradin, *Taking Contracts Seriously*, *supra* note 19, at 399.

[44] *See id.* at 400-01.

circumstances has acted "unreasonably".[45] In a free-market economy where values are primarily defined by market negotiations, it would be perverse and almost meaningless to say that terms that have achieved significant industry acceptance are nevertheless "unreasonable".

While the Commission is never tasked to measure "patent damages", it is noteworthy that for reasons similar to those above, the multi-factor *Georgia-Pacific* "reasonable royalty" analysis gives pride of place to two factors that capture these same issues of market acceptance of similar terms for the same or similar patents: (1) "The royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty"; and (2) "The rates paid by the licensee for the use of other patents comparable to the patent in suit".[46]

Of course, new patentees and first-time licensors will have a harder time making such a showing, but where an infringer asserts a FRAND-based defense against such patents, and the patent holder does not have the factual record to demonstrate historical industry acceptance, the Commission will have to look to other yardsticks of "reasonableness", as courts performing damage analyses under *Georgia-Pacific* likewise do. An inquiry into whether certain licensing terms offered by the patentee fall within FRAND's "range of reasonableness" will need to consider other relevant factors, including licensing agreements negotiated by other licensors for similar patent portfolios. But again, it remains important to remember that the Commission, when evaluating a FRAND defense, faces a different task than does a court conducting a *Georgia-Pacific* analysis; unlike a court, the Commission need ask (and answer) only whether the patentee has made a reasonable offer—not what a final and singular "right" set of license terms would be. It also bears emphasizing that the FRAND obligation (and thus the "reasonableness" analysis) relates to an entire package of license terms considered together—not to a royalty rate standing alone. If a reasonable member of the licensing community would have believed the offer made to have been fair and reasonable taken as a whole, that offer is FRAND.

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[45] Thus, the Western District of Washington recently considered Motorola's offer of numerous licensing agreements suggesting that it had received comparable royalty rates to those offered to Microsoft in relation to its SEPs, and concluded that, "with respect to any RAND obligations Motorola has with respect to Microsoft . . . the court must engage in a factual comparison between the circumstances of each prior agreement and the circumstances that exist between the parties to this litigation". *Microsoft*, 864 F. Supp. 2d at 1039.

[46] *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), *modified and aff'd*, 446 F.2d 295 (2d Cir. 1971). Courts have noted that evidence of royalties agreed to by others for the particular patent in suit is particularly probative of the "reasonable royalty". *See LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 79 (Fed. Cir. 2012) ("Actual licenses to the patented technology are highly probative as to what constitutes a reasonable royalty for those patent rights because such actual licenses most clearly reflect the economic value of the patented technology in the marketplace."); *Atl. Thermoplastics Co. v. Faytex Corp.*, 5 F.3d 1477, 1482 (Fed. Cir. 1993) (relying on royalty offered by the patentee to a third party to support a reasonable royalty determination); *see also Maxwell v. J. Baker, Inc.*, 86 F.3d 1098, 1110 (Fed. Cir. 1996) ("This rate is supported by evidence that Maxwell entered into agreements with other licensees at a royalty rate of $.10 per pair of shoes.").

D. The Commission Can Also Consider Evidence of Subjective Good or Bad Faith.

Because a FRAND undertaking gives rise to what the law recognizes as a binding preliminary agreement that contemplates the typically bilateral negotiation of a later agreement to achieve the ultimate contractual objective of the parties,[47] each party is obligated to negotiate in good faith to achieve the ultimate contractual objective—*i.e.*, a FRAND license.[48] Not surprisingly, the law of contracts recognizes on the one hand that a breach of this obligation can be by either party, and on the other hand that failure to reach agreement does not imply that *either* party has acted in bad faith.[49] An infringer that has refused to enter into good-faith negotiations (within the bounds of commercial reasonableness) should not in equity be heard to complain that the patentee is in violation of a FRAND obligation, nor does the public interest require that it be permitted to do so.[50] This rule promotes the efficient use of the Commission's scarce resources and will reduce the risk that the Commission will be used by the infringer to gain a tactical bargaining advantage, without having made its own attempt to reach a license on FRAND terms.

The question of "bad faith" is necessarily a fact-intensive inquiry,[51] but it is an inquiry that is guided by ample precedent. Courts have defined good faith generally, and then have evaluated the parties' conduct to determine whether they have

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[47] *See, e.g.*, *IDT Corp. v. Tyco Grp., S.A.R.L.*, 13 N.Y.3d 209, 213 n.2, 918 N.E.2d 913, 913 n.2 (2009).

[48] *See, e.g.*, *Microsoft*, 864 F. Supp. 2d at 1038 (holding that under Washington law, negotiation of RAND license "must comport with the implied duty of good faith and fair dealing inherent in every contract"); *EQT Infrastructure Ltd. v. Smith*, 861 F. Supp. 2d 220, 227 (S.D.N.Y. 2012) (noting that under New York law, binding preliminary agreements that leave open terms for further negotiation "'do not commit the parties to their ultimate contractual objective but rather to the obligation to negotiate the open issues in good faith in an attempt to reach the objective within the agreed framework'" (*Brown v. Cara*, 420 F.3d 148, 153 (2d Cir. 2005)); *Gillenardo v. Connor Broad. Delaware Co.*, No. C.A. 98C-06-015 WLW, 2002 WL 991110, at *6 (Del. Sup. Ct. Apr. 30, 2002) (concluding under Delaware law that evidence established an enforceable contract requiring parties to negotiate ultimate terms in good faith).

[49] *Cf. Atl. Track & Turnout Co., v. Perini Corp.*, 989 F.2d 541, 545 (1st Cir. 1993) ("That the MBTA and Perini failed to reach an acceptable agreement does not show that the attempted negotiations were in bad faith.").

[50] *See* Initial Determination at 462 ("As a practical matter, if the ITC were precluded from performing its mandate as set forth in the authorizing statute, an infringing party could, by making unrealistic counter-offers to the patent holder, while claiming that such counter-offers more accurately reflect FRAND than the offers proposed by the patent holder, hold up or frustrate Section 337 investigations."); *id.* at 470 ("[N]egotiations often involve a process of offer and counteroffer before the parties arrive at an agreed price, but Apple's evidence does not demonstrate that Apple put forth a sincere, bona fide effort to bargain with Samsung.").

[51] *See RGC Int'l Investors, LDC v. Greka Energy Corp.*, No. Civ. A. 17674, 2001 WL 984689, at *11 (Del. Ch. Aug. 22, 2001) ("A finding of 'bad faith' is necessarily a fact-intensive inquiry.").

acted in bad faith,[52] and have, for example, held a defendant to have engaged in "bad faith" when it attempted to renegotiate previously agreed issues and ignored the obligation to reach an expedited final agreement, including by engaging in conduct designed to force the plaintiff to resort to litigation for the purpose of causing unreasonable delay.[53]

V. CONCLUSION

The Commission's inquiry concerning the interaction of a FRAND commitment and the availability of an exclusion order should be answered in accordance with the contractual nature of the FRAND commitment. Doing so here, the meaning of the ETSI FRAND commitment is found in the text and history of the ETSI IPR Policy, which clearly establishes that the ETSI membership did not intend that a FRAND commitment include a waiver of the patent holder's right to seek injunctive relief in any form. Accordingly, there is no contractual basis for—nor does the public interest favor—a blanket rule eliminating the availability of exclusion orders for infringement of patents subject to a FRAND commitment made pursuant to the ETSI IPR Policy. Whether an exclusion order should be granted is a fact-based inquiry that the Commission can and should decide on a case-by-case basis.

The determination of whether an offer is FRAND is also a fact-based inquiry. The Commission should assess whether an offer is FRAND first by asking whether the offer fits within a "safe harbor" established by prior industry acceptance—or acceptance by these parties—of similar terms for the intellectual property at issue. If the offer does not fall within this "safe harbor", the Commission will be obliged to look to other and often less clear indicia of reasonableness. The contractual nature of the FRAND commitment, and the clear intent of ETSI to leave the valuing of SEPs to the realm of private negotiation, *see supra* at § IV.B, mean that, at least in the case of an ETSI FRAND commitment, the lodestar of "reasonableness" must be market definitions of value and industry-accepted negotiation practices. Calls for a redefinition of

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[52] *Gillenardo*, 2002 WL 991110, at *8 ("'Good faith' may be defined as refraining from arbitrary or unreasonable conduct which has the effect of preventing the other party to the contract from receiving the fruits of the contract", while "bad faith" "implies the conscious doing of a wrong because of dishonest purpose or moral obliquity; it is different from the negative idea of negligence in that it contemplates a state of mind affirmatively operating with furtive design or ill will".).

[53] *See RGC Int'l Investors*, 2001 WL 984689, at *8-10, *13-14; *see also Gillenardo*, 2002 WL 991110, at *8 (holding that the defendant breached its duty to negotiate in good faith when it stopped negotiating in anger in light of the plaintiff's proposal, which was considered unsatisfactory, and made no attempt in good faith to finalize the ultimate agreement).

"reasonable" based on favored economic theories or resource-allocation goals untethered to actual industry licensing practice should therefore be rejected.

Respectfully,

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