UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

In the Matter of **CERTAIN AUDIOVISUAL COMPONENTS AND PRODUCTS CONTAINING THE SAME**	**Inv. No. 337-TA-837**

WRITTEN SUBMISSION REGARDING REMEDY AND THE PUBLIC INTEREST BY NON-PARTIES INTEL CORPORATION AND CISCO SYSTEMS, INC.

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This case raises an issue of exceptional importance for maintaining the Nation's competitiveness in high-technology industries: when should the governing public interest factors preclude an exclusion order sought by a patentee that has contractually committed to license its "standard-essential patents" ("SEPs") to all applicants on reasonable and non-discriminatory ("RAND") terms.[1] Intel and Cisco Systems submit that, except in limited circumstances, the public interest should preclude an exclusion order on SEPs that are subject to a RAND commitment.[2]

The Commission has broad discretion to refuse an exclusion order when such an order would harm the public interest. 19 U.S.C. § 1337(d)(1). As part of its public interest analysis, the Commission must evaluate "the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers." *Id.*; *see also id.* § 1337(f)(1) (same factors considered in evaluating cease-and-desist order). In this case, the Commission has requested briefing to address "the form of remedy, if any, that should be ordered," observing that in making its remedial determination, the Commission "must consider the effects of that remedy upon the public interest." Notice of Commission Determination to Review a Final Initial Determination Finding a Violation of Section 337 In Its Entirety; Schedule for Filing Written Submissions on Certain Issues Under Review and on Remedy, Bonding, and the Public Interest, at 4 (Oct. 17, 2013).

In the past, the Commission has refused to enter exclusion orders that would cause seri-

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1 The terms "RAND," "FRAND," and "F/RAND" are used interchangeably; as these terms are functionally equivalent, this brief will refer to RAND throughout.

2 Intel and Cisco Systems take no position on the dispute between the parties, and submit this statement only to address the general question of the proper standards to apply in determining whether to issue an exclusion order on the basis of RAND-encumbered SEPs, which is an issue of recurring and substantial importance for high-technology industries.

ous harm to the public interest. That harm often took the form of depriving the public of products necessary for consumer welfare. *See, e.g.*, *Certain Fluidized Supporting Apparatus & Components Thereof*, Inv. No. 337-TA-182/188, USITC Pub. 1667 (Oct. 5, 1984); *Inclined-Field Acceleration Tubes & Components Thereof*, Inv. No. 337-TA-67, USITC Pub. 1119 (Dec. 29, 1980). An exclusion order on the basis of RAND-encumbered SEPs in this case would result in a different, but also severe, public interest harm: the exploitation of market power (which was created by an industry standard, not by the individual SEPs) to deny producers and consumers the benefits of industry standard-setting, after the patentee publicly relinquished that market power and waived its right to exclude prospective RAND licensees from practicing the SEPs in exchange for RAND royalties.

Exclusion orders with respect to RAND-encumbered SEPs create a risk of coerced windfall settlements that distort competition, undermine the standard-setting process, and injure consumers—the very sort of harm that Section 337's public interest inquiry was designed to prevent. Because SEPs are incorporated into a variety of products, granting an exclusion order for a RAND-encumbered SEP could enable a party to effectively shut down multiple industries or subject them to a windfall tax that is attributable more to the ubiquity of the standard than to the value of the SEP in a competitive market. For example, the IEEE 802.11 ("Wi-Fi") standard for wireless Internet connectivity (which is one of the standards at issue in this case) is used in a wide array of consumer products, including laptop computers, tablets, mobile phones, printers, medical devices, and home appliances. As a practical matter, therefore, any company that desires to compete in many of those markets must implement the Wi-Fi standard, and must therefore employ the technology embodied in all of the thousands of SEPs that cover aspects of the standard. *See In re Innovatio IP Ventures, LLC Patent Litig.*, No. 11 C 9308, 2013 WL 5593609, at *42-43 (N.D. Ill. Oct. 3, 2013) (accepting 3,000 as "a reasonable estimate of the number of 802.11 standard-essential patents"). Permitting the holder of a RAND-encumbered Wi-Fi SEP to exploit the vast commercial success of that standard would over-compensate the patent holder, impose undue costs on innovative new products, and create disincentives for widespread adoption of standards in the future, to the detriment of innovation, consumers, and the economy as a whole. Certainly such market distortion and harm to the standard-setting process and consumers is precisely what Congress intended the Commission to consider under the public interest factors.

Permitting an exclusion order based on RAND-encumbered SEPs would also undermine the basis upon which the Institute of Electrical and Electronics Engineers ("IEEE")—the standard-setting organization ("SSO") that promulgated the Wi-Fi standards—incorporated RAND-encumbered SEPs into its standards. The IEEE has made clear that the RAND commitments that it secures from standard-setting participants are designed "to preserve the competitive benefits of *ex ante* technology competition"—*i.e.*, the competition among technologies that occurs before one particular technology is selected for inclusion in the standard. Br. of *Amici Curiae* The Institute of Electrical and Electronics Engineers, Inc., VITA, OASIS Open, The Open Group, and PCI Indus. Computer Mfrs. Grp. In Support of Neither Party at 10, *Broadcom Corp. v. Qualcomm Inc*., 501 F.3d 297 (3d Cir. Dec. 19, 2006) (No. 06-4292). If SEP holders could exploit the enhanced market power attributable to the promulgation and success of the standard (rather than being limited to the pre-promulgation competitive value of their patented technology), the purpose of the RAND commitments would be entirely frustrated.

The Executive Branch recently applied Section 337's public interest factors to veto an exclusion order issued by the Commission based on a FRAND-encumbered SEP (in Investigation No. 337-TA-794). On behalf of the President, the United States Trade Representative

("USTR") overturned the exclusion order after a "review of the various policy considerations . . . as they relate to the effect on competitive conditions in the U.S. economy and the effect on U.S. consumers." Letter from Amb. Michael B. G. Froman, USTR, to Hon. Irving A. Williamson, ITC Chairman, at 3 (Aug. 3, 2013). The USTR left no doubt that "[l]icensing SEPs on FRAND terms is an important element of the Administration's policy of promoting innovation and economic progress and reflects the positive linkages between patent rights and standards setting." *Id.* Among the relevant public interest considerations relied upon in that determination was the USTR's concern about the "potential harms that can result from owners of [SEPs] who have made a voluntary commitment to offer to license SEPs on [FRAND] terms . . . gaining undue leverage and engaging in 'patent hold-up.'" *Id.* at 2.

The USTR thus directed that, in future proceedings, the Commission should "examine thoroughly and carefully on its own initiative the public interest issues . . . when determining whether a particular remedy is in the public interest" and make "explicit findings" as to "the presence or absence of patent hold-up or reverse hold-up." *Id.* at 3. The USTR made clear that the Commission's consideration of and explicit findings as to the public interest will be central to the USTR's policy review of Commission decisions presenting similar issues in the future. *Id.* It is therefore critical that in reviewing this determination, the Commission must be careful to consider and implement to the fullest extent the considerations and concerns expressed by the USTR in his decision.

A recent policy statement issued by the Department of Justice and the United States Patent and Trademark Office further emphasizes the potential public harm that may arise from the issuance of injunctions or exclusion orders in the context of F/RAND-encumbered SEPs. According to the Department of Justice and the Patent and Trademark Office:

> A patent owner's voluntary F/RAND commitments may also affect the appropriate choice of remedy for infringement of a valid and enforceable standards-essential patent. *In some circumstances, the remedy of an injunction or exclusion order may be inconsistent with the public interest. This concern is particularly acute in cases where an exclusion order based on a F/RAND-encumbered patent appears to be incompatible with the terms of a patent holder's existing F/RAND licensing commitment to [a standards-developing organization].* A decision maker could conclude that the holder of a F/RAND-encumbered, standards-essential patent had attempted to use an exclusion order to pressure an implementer of a standard to accept more onerous licensing terms than the patent holder would be entitled to receive consistent with the F/RAND commitment—in essence concluding that the patent holder had sought to reclaim some of its enhanced market power over firms that relied on the assurance that F/RAND-encumbered patents included in the standard would be available on reasonable licensing terms under the [standards-developing organization's] policy. *Such an order may harm competition and consumers by degrading one of the tools [standards-developing organizations] employ to mitigate the threat of such opportunistic actions by the holders of F/RAND-encumbered patents that are essential to their standards*.

U.S. Dep't of Justice and U.S. Patent and Trademark Office, Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments, at 6 (Jan. 8, 2013) (emphases added), *available at* http://www.justice.gov/atr/public/guidelines/290994.pdf.

Complainants here do not dispute that the patents at issue are RAND-encumbered SEPs. *See* Initial Determination, ITC Inv. No. 337-TA-837, at 351 (Aug. 14, 2013). The '958 and '867 patents are claimed to cover technologies related to the Wi-Fi standard promulgated by the IEEE. *See id.* at 170-72, 220-24. The '663 patent is claimed to cover technology related to the standard for recording, compression, and distribution of high-definition video, referred to as "H.264" or "MPEG-4," promulgated by the International Telecommunication Union ("ITU"). *See id.* at 135-38. The IEEE and the ITU are SSOs that adopt technical specifications to ensure interoperability across devices and technologies. By voluntarily participating in the standard-setting process for both the Wi-Fi and MPEG-4 standards, complainants LSI Corporation and Agere Systems Inc. subjected themselves to IEEE's and ITU's rules, which require them to license their

SEPs on RAND terms.

Specifically, the IEEE requires participants in the standard-setting process to provide letters of assurance either disclaiming the right to enforce standard-essential patent claims against any entity that has implemented the standard, or promising to license such SEPs "to an unrestricted number of applicants on a worldwide basis without compensation or under reasonable rates, with reasonable terms and conditions that are demonstrably free of any unfair discrimination." IEEE-SA Standards Board Bylaws § 6.2(b), *available at* http://standards.ieee.org /develop/policies/bylaws/sb_bylaws.pdf. Similarly, before integrating a patented technology into a standard, the ITU requires a licensing declaration, wherein the patent holder promises to license the SEP "to an unrestricted number of applicants on a worldwide, non-discriminatory basis and on reasonable terms and conditions." ITU, Patent Statement and Licensing Declaration Form, *available at* http://www.itu.int/oth/T0404000002/en.

By imposing these requirements, the IEEE and ITU thus seek to "mitigate the threat of patent holdup." *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 876 (9th Cir. 2012). Indeed, the Ninth Circuit has held that a declaration made to the ITU—which is substantially identical to the declarations to both the ITU and IEEE at issue in this case—is an enforceable contract that "admits of no limitations as to who or how many applicants could receive a license," or "as to which country's patents would be included." *Id.* at 884. "Implicit in such a sweeping promise is, at least arguably, a guarantee that the patent-holder will not take steps to keep would-be users from using the patented material, such as seeking an injunction, but will instead proffer licenses consistent with the commitment made." *Id.*; *see also id.* at 877 (recognizing that RAND licensing commitments may render injunctive relief "an inappropriate remedy for infringement of [SEPs]"); *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 914 (N.D. Ill. 2012) (Posner, J.)

("By committing to license its patents on FRAND terms, Motorola committed to license the [patent] to anyone willing to pay a FRAND royalty and thus implicitly acknowledged that a royalty is adequate compensation for a license to use the patent.").

In accordance with these requirements, complainants here committed to license the SEPs at issue to anyone willing to pay a RAND royalty. In so doing, complainants accepted that RAND royalties would sufficiently compensate them for the use of their SEPs by any implementer of the Wi-Fi or MPEG-4 standards. In other words, to make it possible for their technologies to be incorporated into the standards, complainants agreed to forgo the right to exclude any party willing and able to pay independently determined RAND royalties from practicing their SEPs. Respectfully, Intel and Cisco Systems submit that these RAND commitments—and the absence of an exception such as a final, non-appealable U.S. court judgment establishing a RAND royalty that the respondents rejected prior to commencement of the proceeding—preclude complainants from seeking an exclusion order here.[3]

Because complainants' RAND commitments constitute promises to license their SEPs to all parties that incorporate the relevant standards into their products, those commitments effectively modified the scope of complainants' patent rights. A patent confers "a property right," *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 730 (2002), that ordinarily entitles the holder to obtain an exclusion order if it is able to meet Section 337's statutory requirements. But "[a]s with other property rights, patent-related rights can be contracted away." *Deprenyl Animal Health, Inc. v. Univ. of Toronto Innovations Found.*, 297 F.3d 1343, 1357 (Fed. Cir. 2002). Once the patentee commits to license its SEPs on RAND terms, the scope of its

[3] Other such exceptions include a determination in binding arbitration (prior to the institution of the Commission proceedings) establishing a RAND royalty that respondents rejected, or when respondents are unable to pay a RAND royalty or are not subject to the jurisdiction of U.S. courts and the Commission's in rem authority is the only recourse.

property right is modified, and it may no longer seek an injunction or exclusion order, except in limited circumstances as mentioned above. *Cf. Tessera, Inc. v. ITC*, 646 F.3d 1357, 1369-71 (Fed. Cir. 2011), *cert. denied*, 132 S. Ct. 2707 (2012).

It follows that the Commission should not issue an exclusion order in a case, like this one, in which the patentee has made a RAND commitment. In litigation related to this case, the United States District Court for the Northern District of California concluded that by seeking an exclusion order from the Commission before offering a license to respondents on RAND terms, complainants "violated their contractual obligations." *Realtek Semiconductor Corp. v. LSI Corp.*, _ F. Supp. 2d _, No. C-12-03451, 2013 WL 2181717, at *5 (N.D. Cal. May 20, 2013). The district court held that "the act of seeking injunctive relief (here, at the ITC *before* proposing a RAND license to Realtek) is inherently inconsistent and a breach of defendants' promise to license the patents on RAND terms." *Id.* at *6 (emphasis in original). Complainants' contractual promises to accept RAND-based compensation from all users of the standards in lieu of excluding users from practicing the SEPs leave no room for a Commission-imposed exclusion order with respect to parties willing and able to pay properly determined RAND royalties.

The unavailability of an exclusion order here does not depend on an examination of the parties' license negotiations involving the '958, '867, and/or '663 patents. Complainants initiated this investigation and sought an exclusion order before any U.S. court with competent jurisdiction or a binding arbitrator had determined (prior to institution of the Commission investigation) in a final, non-appealable judgment both RAND licensing terms and that respondents failed to accept those terms after their determination. As the district court correctly ruled in *Realtek*, such conduct is "inherently inconsistent" with complainants' contractual RAND obligations. 2013 WL 2181717, at *6. Accordingly, there is no need for the Commission to examine the parties' license negotiations before concluding that an exclusion order would be contrary to the public interest.

That is especially true given the central role that RAND commitments play in protecting the public from potentially anticompetitive consequences of standard-setting. The adoption of a standard often enables SEP holders to exert leverage over an entire industry (or multiple industries) by demanding excessive royalties and threatening to enjoin the sale of a variety of standard-compliant products. *Cf. eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 396-97 (2006) (Kennedy, J., concurring) (suggesting that injunctive relief "may not serve the public interest" in cases where "the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations"). Unlike with ordinary patents—which an infringer can often design around to produce a materially similar product—it is commercially infeasible for an individual manufacturer to decline to incorporate a commercially accepted standard (and hence the SEPs) into a new product. Indeed, the very purpose of interoperability standards is to incorporate identical standard-compliant features into products so that different manufacturers' products will work together. Failing to adopt the standards at issue here would make respondents' products unable to communicate with other standard-compliant products and networks, dramatically affecting their usefulness.

This commercial reality means that, after a standard is adopted, SEP holders can "hold up" other companies through threats of injunctive relief in order to "capture not just the value of the inventive contribution that [the SEP holders] have made . . . but also some greater amount of money than their invention is worth." Mark A. Lemley, *Ten Things To Do About Patent Holdup of Standards (And One Not To)*, 48 B.C. L. Rev. 149, 152 (2007). That is precisely why SSOs require participants to agree to grant licenses to all applicants on RAND terms *before* the standard is adopted. Indeed, the IEEE has emphasized that its RAND commitments are designed to "protect implementers of a standard against patent hold-up," which the organization defines "as the ability of the owner of patented technology to extract higher royalties after its technology has been chosen by the SSO as a standard and others have incurred sunk costs which effectively increase the relative cost of switching to an alternative standard." Br. of *Amicus Curiae* The Institute of Electrical and Electronics Engineers, Inc., In Support of No Party at 15, *Apple, Inc. v. Motorola, Inc*., No. 12-1548 (Fed. Cir. Dec. 19, 2012) (internal quotation marks and citation omitted).

Given the crucial role of RAND commitments in preserving competition, straightforward application of Section 337's public interest factors shows that an exclusion order would be inappropriate here. Most obviously, enforcement of RAND commitments improves the "competitive conditions in the United States economy" and enhances the welfare of "United States consumers" by mitigating the hold-up problem. 19 U.S.C. § 1337(d)(1). Because of the commercial infeasibility of designing around standards, allowing an SEP holder to obtain an injunction against a party willing to pay RAND royalties would empower SEP holders to extract a disproportionate share of the value of accused products, making an unreasonably high settlement the only plausible outcome, and thereby raising prices to consumers. An exclusion order would force respondents to choose between withdrawing products from the market or potentially paying far more than a RAND royalty. Competition and consumers would be harmed in either event.

Even more troubling, issuance of an exclusion order in the face of unfulfilled RAND commitments would undermine the standard-setting process that is so vital to U.S. innovation, economic growth, and consumer welfare. The creation and adoption of standards greatly benefit

U.S. consumers by “facilitat[ing] the sharing of information among purchasers of products from competing manufacturers.” *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 308 (3d Cir. 2007). But companies will become reluctant to agree on standards and to incorporate them into their products if SEP holders can unfairly exploit the resulting standard-derived market power through exclusion orders. That will ultimately hurt consumers, who have benefited tremendously from the interoperability of high-technology products.

For the foregoing reasons, the Commission should generally deny an exclusion order for RAND-encumbered SEPs absent such limited circumstances as those mentioned above.

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Respectfully submitted,

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CERTIFICATE OF SERVICE

I, Thomas G. Hungar, certify that on November 1, 2013, copies of the foregoing WRITTEN SUBMISSION REGARDING REMEDY AND THE PUBLIC INTEREST were delivered, pursuant to Commission regulations, to the following interested parties as indicated:

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