

November 1, 2013

The Honorable Irving A. Williamson  
Chairman, U.S. International Trade Commission

The Honorable Shara L. Aranoff  
Commissioner, U.S. International Trade Commission

The Honorable Dean A. Pinkert  
Commissioner, U.S. International Trade Commission

The Honorable David S. Johanson  
Commissioner, U.S. International Trade Commission

The Honorable Meredith Broadbent  
Commissioner, U.S. International Trade Commission

The Honorable F. Scott Kieff  
Commissioner, U.S. International Trade Commission

United States International Trade Commission  
500 E Street SW  
Washington, DC 20436

**Re: Investigation No. 337-TA-837, Public Interest Submission**

Dear Commissioners:

InterDigital submits this response to the Commission's request for written submissions in Investigation No. 337-TA-837 regarding remedy and the public interest.

InterDigital has been a participant in the wireless industry for more than thirty-five years, providing advanced technologies that enable wireless communications. InterDigital has designed and developed a wide range of innovations that are used in digital cellular products and networks, including 2G, 3G, and 4G products and networks. We actively participate in, and contribute our technology solutions to, standards setting organizations (SSOs) responsible for the development and approval of standards to which such products are often built. These SSOs typically employ policies requiring members and participants to declare whether they are prepared to license essential patents on fair, reasonable and nondiscriminatory (FRAND) terms, or other similar terms. As such, InterDigital's

perspective on these issues is informed by its longstanding participation in standard-setting activities and licensing of patented technologies.

## 1. RAND-Encumbered Nature of Patents

The Commission has requested comments on the following question: “Please discuss and cite any record evidence of the allegedly RAND-encumbered nature of the declared standard essential '663, '958, and '867 patents. With regard to the '958 patent and the '867 patent, what specific contract rights and/or obligations exist between the patentee and the applicable standard-setting organization, i.e., the Institute of Electrical and Electronic Engineers, Inc. (IEEE)? With regard to the '663 patent, what specific contract rights and/or obligations exist between the patentee and the applicable standard-setting organization, i.e., the International Telecommunication Union (ITU)?”

While InterDigital does not take a position on the asserted patents in the 837 Investigation, the issue of the nature of RAND-encumbered patents is an important one generally throughout the wireless industry. This question highlights a fundamental analytical point regarding RAND commitments: the obligations imposed by standard-setting organizations are derived from the actual language of the policies and declarations of the particular SSO of which the patent holder is a member. Consequently, determining whether a patent is RAND-encumbered depends on the specific definitions and provisions set forth in the applicable SSO policy as to which set of patents a declarant agrees to be prepared to license on RAND terms.

Where a patent holder has submitted a declaration to an SSO, the language of the declaration (often referring to defined terms in the SSO’s IPR policy) defines the scope of the commitment made by the patent holder. It would not be proper to add or infer additional obligations beyond what the patent holder actually stated in a declaration. Thus, there is no “one-size-fits-all” definition of “RAND-encumbered” that is applicable to all SSOs. Each SSO’s policy has its own language and history that informs the nature and boundaries of the commitment that patent holders understood themselves to be making when submitting a declaration. Retroactively changing the settled expectations of standard participants would be inequitable and counterproductive to the standard-setting process.

For example, the ITU licensing declaration provides that the patent holder is prepared to grant a license on a “worldwide” non-discriminatory basis. Consequently, prospective licensees who say they require single-country licenses, even when they have global operations and sales in many countries, are not reasonably interpreting the RAND commitment made by the patent holder, given the express expectation that licenses will be on a “worldwide” basis. Similarly, the ITU licensing declaration refers to patents “whose use would be required” to practice ITU Recommendations. This demonstrates that an inquiry into whether a patent’s use is required to practice the ITU Recommendation at issue is necessary to determine the applicability of the RAND commitment in the declaration.

## 2. Portfolio Licensing

The Commission has also requested comments regarding the following topic: “If applicable, please discuss the industry practice for licensing patents involving technologies similar to the technologies in the '663, the '958, and the '867 patents individually or as part of a patent portfolio.”

Further, the Commission's request for comments also sought input regarding the history of negotiations between the parties "alone . . . and/or in conjunction with non-asserted patents."

Cellular voice and data technologies such as those related to 2G, 3G, and 4G wireless standards have some similarities to the Wi-Fi technology at issue in the 837 Investigation. While there are differences in these technologies (including the standards-setting bodies that organize the standardization efforts), information about licensing of cellular technologies may be useful in analyzing the public interest considerations at issue here.

As a leading contributor to cellular wireless standards, InterDigital has extensively licensed its patents in this area to dozens of licensees. While licenses have variation among them, in general, InterDigital licenses on a worldwide portfolio basis, and not on an individual-patent basis. In our experience, licensees who seek to conclude a license normally want broad license coverage and prefer portfolio licenses.

Licenses also commonly include multiple technology generations. Further, it is InterDigital's understanding that worldwide portfolio licensing is common for companies with large portfolios of cellular wireless technology patents who are licensing sellers of devices with global operations. For example, license summaries that were publicly filed in the *Apple v. Samsung* litigation in California indicated that the licenses considered in that case were almost exclusively worldwide licenses that included portfolios of patents covering particular products and/or standards. *See Apple Inc. v. Samsung Elecs. Co. Ltd.*, Case No. 11-cv-01846-LHK (N.D. Cal.), ECF #1726 at PX630; ECF # 1777 at DX630.

There are many reasons why parties prefer worldwide portfolio licenses in the context of agreements negotiated in the ordinary course of conducting their businesses. These licenses provide the broadest coverage to licensees, who usually seek to accomplish freedom to operate without concerns of further patent disputes and generally wish to achieve "patent peace" with the licensor. Further, it is far more efficient to negotiate for a broad portfolio license than to negotiate multiple, individual licenses over single patents.

In addition, "package licensing" has been recognized by the Federal Circuit as having pro-competitive efficiencies:

"Philips introduced evidence that package licensing reduces transaction costs by eliminating the need for multiple contracts and reducing licensors' administrative and monitoring costs. *See Tex. Instruments, Inc. v. Hyundai Elecs.*, 49 F.Supp.2d 893, 901 (E.D.Tex.1999) (describing how "extremely expensive and time-consuming" it is for parties to license and manage the licensing of technology by using individual patents and how it is preferable to employ a patent portfolio). Package licensing can also obviate any potential patent disputes between a licensor and a licensee and thus reduce the likelihood that a licensee will find itself involved in costly litigation over unlicensed patents with potentially adverse consequences for both parties, such as a finding that the licensee infringed the unlicensed patents or that the unlicensed patents were invalid. *See Steven C. Carlson, Patent Pools and the Antitrust Dilemma*, 16 Yale J. on Reg. 359, 379-81 (1999). Thus, package licensing provides the parties a way of ensuring that a single licensing fee will cover all the patents needed to practice a particular technology and protecting against

the unpleasant surprise for a licensee who learns, after making a substantial investment, that he needed a license to more patents than he originally obtained. Finally, grouping licenses in a package allows the parties to price the package based on their estimate of what it is worth to practice a particular technology, which is typically much easier to calculate than determining the marginal benefit provided by a license to each individual patent. In short, package licensing has the procompetitive effect of reducing the degree of uncertainty associated with investment decisions.”

*US Philips Corp. v. Int’l Trade Comm’n*, 424 F. 3d 1179 (Fed. Cir. 2005).

In the absence of worldwide portfolio licensing, licensors would have no effective means of obtaining compensation for the use of their patents, and would be forced to pursue individual actions for patent infringement on each patent owned by the licensor in each jurisdiction where the patents were issued. For licensors with large global portfolios, this would be prohibitively inefficient. As Nokia recently explained in its amicus brief to the Federal Circuit in the *Apple v. Motorola* case, if injunctive relief for infringement is not available,

[e]ach manufacturer could simply infringe until litigation was brought, allowing the court to set the royalty rate for them several years after the commencement of the litigation, and in some cases potentially escape responsibility by making enforcement prohibitively difficult through restructuring of corporate organizations, manufacturing operations, and/or distribution channels. To adequately enforce its rights, a patent holder could be forced to litigate against every manufacturer of standard-compliant products in multiple fora across the world to ensure that all covered sales would be compensated. This, in turn, would result in a greater multiplication of patent litigation creating a greater drain on the courts. Further, it could threaten the standardization process as a whole, as patent holders would be forced to consider the likely difficulties in obtaining fair compensation for the use of their patents before making FRAND commitments concerning them.”

See Brief For Nokia Corporation and Nokia Inc. as Amici Curiae, *Apple Inc. v. Motorola Inc.*, No. 2012-1548, ECF No. 183-1 (Fed. Cir. May 6, 2013).

Likewise, to the extent the ability of licensors to enter into efficient worldwide portfolio licenses were undermined, licensors would have little incentive to develop new technology, if they will have little or no ability to recoup the investments made in research and development. The actions of prospective licensees in seeking individual licenses only for patents on which lawsuits have been filed in this context can be an obstructionist tactic designed to accomplish reverse hold-up, in which the licensor’s R&D investments are held hostage with no path to a return on their investments.

### **3. Constructive Refusal to License and Reverse Hold-Up**

The Commission’s request for comments also included the following: “Please discuss and cite any record evidence of any party attempting to gain undue leverage, or constructively refusing to negotiate a license, with respect to the '663, the '958, and the '867 patents. Please specify how that

evidence is relevant to whether section 337 remedies with respect to such patents would be detrimental to competitive conditions in the U.S. economy and any other statutory public interest factor.”

As a general matter, constructive refusal to license and reverse hold-up are real and significant concerns for industry participants that license their innovative patented technologies that are the result of their sizeable investments in research and development. There are many ways in which prospective licensees may attempt to gain undue leverage and constructively refuse to negotiate a license.

One common tactic is the simple strategy of delay, where the prospective licensee engages in correspondence and meetings with the patent holder over an extended period of time, without actually intending to move the license discussions forward. In another variation of this tactic, the prospective licensee may ask an unending series of questions to the patent holder (including questions relating to technical diligence that have already been answered by the patentee or are apparent from public patent filings) that go well beyond the usual types of information exchanged in licensing discussions. The prospective licensee then claims that it is justified in not proceeding with licensing negotiations until its questions have been answered satisfactorily. But any answers are met with a new series of questions, repeated *ad infinitum*. The delay strategy may also manifest itself, if litigation is pending, in the form of legal assertions that are frivolous or wholly groundless, meant to derail the legal proceedings for the length of time it takes a court to reject the meritless threshold arguments and proceed to adjudication of the substantive issues.

Another sign of a constructive refusal to license may occur when a prospective licensee refuses to make economic counteroffers setting forth financial terms that the prospective licensee is willing to pay, after the patent holder has made a proposal with economic terms. Or, alternatively, the prospective licensee may make counteroffers that it knows to be well below the rates in similar licenses under any reasonable analysis.

Prospective licensees may also demand to know the terms of confidential licenses between the patent holder and other licensees as a condition of negotiating – even where the other licensees may be competitors of the prospective licensee. Nothing about SSO RAND policies obliges a patent holder to ignore, violate, or dispense with ordinary confidentiality provisions that businesses typically employ.

Yet another version of constructive refusal to license occurs when the prospective licensee may set forth a list of required terms in a license, when those terms are unusual and not found in actually-concluded licenses in the industry. For example, as noted above, worldwide portfolio licenses are the usual and accepted practice for licensors with broad global portfolios and licensees with sales and operations in many countries. When a prospective licensee in this circumstance requests separate licenses for each patent in each country (a dauntingly inefficient task for a licensor with hundreds or thousands of patents), or solely those patents that have been asserted against it in litigation, one may infer that this is a tactic designed to derail any resolution of negotiations rather than a sincere effort to conclude a license.

These examples of ways in which constructive refusal to license may be manifested are of course not exhaustive, but illustrate that there are myriad forms of negotiation behaviors that can result in reverse hold-up to the detriment of the patent owner, while the prospective licensee continues to use the patented technology without payment of fair compensation. When reverse hold-up tactics force a patent

holder to settle for licenses providing substantially less than fair and adequate compensation, this reduces incentives for innovators to develop and contribute technology for standards. In turn, consumers and the public will be deprived of technological advances that would otherwise have been developed and commercialized.

Very truly yours,



Lawrence F. Shay  
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and Chief Intellectual Property Counsel