UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

In the Matter of **CERTAIN 3G MOBILE HANDSETS AND COMPONENTS THEREOF**	**Investigation No. 337-TA-613** **REMAND**

RESPONSE TO THE COMMISSION'S NOTICE TO REVIEW IN PART THE FINAL INITIAL DETERMINATION ON REMAND AND SUBMISSION REGARDING THE PUBLIC INTEREST, REMEDY AND BONDING BY INTERESTED PARTIES INTEL CORPORATION, DELL INC., AND HEWLETT-PACKARD COMPANY

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I. INTRODUCTION

This case raises an issue of exceptional importance for maintaining the Nation's competitiveness in high-technology industries: When should a patentee who has voluntarily committed to license patents essential to an industry standard ("SEPs") on fair, reasonable, and non-discriminatory ("FRAND") terms nevertheless obtain an ITC exclusion order preventing importation of standard-compliant products, consistent with the public interest factors governing ITC proceedings? In accordance with the broad consensus reached by courts and regulators worldwide, Intel Corporation, Dell Inc., and Hewlett-Packard Company submit that the public interest generally precludes an exclusion order on FRAND-encumbered SEPs, except in limited circumstances, including when: (i) the respondent refuses to accept (or unjustifiably delays in accepting) a license on terms that have been independently determined to be FRAND-compliant by a court or binding arbitrator in a final, non-appealable judgment; (ii) the respondent is unable due to financial distress to pay a FRAND royalty; or (iii) the patentee has no ability to assert an infringement claim against the importer or its customer, such that in rem jurisdiction over imported goods in an ITC action is the only practical option that the patentee has to prevent continued infringement.

II. SUBMISSION ON THE ISSUES OF REMEDY, THE PUBLIC INTEREST AND BONDING

InterDigital ("IDC") is a member of the European Telecommunications Standards Institute ("ETSI"), one of the core standard-setting organizations ("SSOs") responsible for promulgating the 3rd Generation Partnership Project ("3GPP") standard at issue in this case. As a member of ETSI, IDC submitted "an irrevocable undertaking in writing" to "grant irrevocable licences on [FRAND] terms and conditions" to its claimed SEPs. ETSI Rules of Procedure § 6.1

(2011).[1] As ETSI's IPR policy makes clear, this commitment was intended "to reduce the risk . . . that investment in the preparation, adoption and application of STANDARDS could be wasted as a result of an ESSENTIAL IPR for a STANDARD . . . being unavailable." *Id.* § 3.1.

The Administrative Law Judge assumed, without deciding, that the IDC patents at issue are essential to the 3GPP standard and subject to these FRAND commitments. Nonetheless, the ALJ determined that IDC was under "no duty not to seek an exclusion order" because, in the ALJ's view, IDC had attempted to negotiate a license in good faith. Initial Determination on Remand ("IDR") at 54. For the reasons set forth below, we respectfully submit that those determinations were in error and against the public interest.

A. FRAND Commitments Are Necessary to Safeguard the Public's Interest in Standardization.

Industry standards play a vital role in today's economy. Interoperability standards allow products from different manufacturers to communicate with each other, fueling innovation and consumer choice and facilitating the rapid adoption of new products and services. *See, e.g.*, Richard J. Gilbert, *Deal or No Deal? Licensing Negotiations in Standard-Setting Organizations*, 77 Antitrust L.J. 855, 855 (2011) (explaining that standardization creates an "ecosystem of products and services in which competition can thrive"); U.S. Dep't of Justice and Fed. Trade Comm'n, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition, Chapter 2, Competition Concerns When Patents are Incorporated into Collaboratively Set Standards, at 33 (2007).[2]

1 *Available at* http://www.etsi.org/WebSite/document/Legal/ETSI%20IPR%20Policy%20November%202011.pdf.

2 *Available at* https://www.ftc.gov/sites/default/files/documents/reports/antitrust-enforcement-and-intellectual-property-rights-promoting-innovation-and-competition-report.s.department-justice-and-federal-trade-commission/p040101promotinginnovationandcompetitionrpt0704.pdf.

Interoperability standards "lower costs by increasing product manufacturing volume" and "increase price competition by eliminating 'switching costs' for consumers who desire to switch from products manufactured by one firm to those manufactured by another." *Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-cv-178, 2011 WL 7324582, at *1 (W.D. Wis. June 7, 2011). Standards also, as the Third Circuit has observed, "reduce[] the risk to producers (and end consumers) of investing scarce resources in a technology that ultimately may not gain widespread acceptance." *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 309 (3d Cir. 2007). Finally, the creation and adoption of standards benefit U.S. consumers by "facilitat[ing] the sharing of information among purchasers of products from competing manufacturers." *Id.* at 308.

A few widely accepted standards demonstrate these benefits. The Wi-Fi standard, for example, enables consumers to seamlessly connect to the Internet not only in their homes, but also in public spaces both in the United States and abroad, creating a worldwide market for manufacturers of standard-compliant products. And the USB standard allows various electronic devices—including smartphones, cameras, printers, and memory storage devices—to exchange data with computers without regard to the manufacturer of the device. As leading contributors of patented technologies used in both standards as well as users of both technologies, we recognize the need for a balanced approach to SEPs, which appropriately rewards SEP owners for their intellectual property but also prevents SEP owners from abusing the market power that they agreed to forgo exercising by voluntarily making the FRAND commitment.

1. Standardization May Confer Unearned Market Power on SEP Holders.

Given the value of standardization for both consumers and producers, standards have become ubiquitous in both the computing and telecommunications industries. SSOs allow technical experts from key stakeholders to work together to agree on standards that allow their products to work together. But without proper safeguards, this consensus-based standard-setting can also raise the specter of anticompetitive harm.

"When a technology is incorporated into a standard, it is typically chosen from among different options." *Ericsson Sys., Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1233 (Fed. Cir. 2014); *see* Brief of Amicus Curiae The Institute Of Electrical and Electronics Engineers, Inc., in Support of No Party, *Apple, Inc. v. Motorola, Inc.*, No. 2012-1548, Dkt. 113, at 19 (Fed. Cir. Dec. 19, 2012) (explaining that SSOs typically choose from "multiple available technologies" that offer "alternative approaches" to solving each technological issue addressed by the standard). Indeed, patents often claim only one of several alternative solutions to a technical problem, allowing potential infringers to produce materially similar products by designing around a given patent. But once an SSO adopts an interoperability standard, it eliminates technological alternatives for those patents that become SEPs, thereby making it technically infeasible to design around patents essential to practicing the standard. ETSI Rules of Procedure § 15(6) (defining "ESSENTIAL" to mean that "it is not possible on technical (but not commercial) grounds . . . [to] comply with a STANDARD without infringing that IPR").

Once companies "have invested significant resources developing products and technologies that conform to the standard," it becomes "prohibitively expensive to abandon their investment and switch to another standard," and the industry "become[s] 'locked in' to the standard." *Broadcom*, 501 F.3d at 310. Widespread adoption of interoperability standards thus effectively compels implementers to use SEPs in order to compete.

This gives patentees a "unique position of bargaining power" in which they "may be able to extract supracompetitive royalties from the industry participants." *Broadcom*, 501 F.3d at 310. Prior to standardization, "a patent does not necessarily confer market power upon the patentee," *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 45 (2006), and the royalties that a patent holder may obtain are therefore limited by the existence of *ex ante* competition among alternative technologies. *See also* U.S. Dep't of Justice & Fed. Trade Comm'n, Antitrust Guidelines for the Licensing of Intellectual Property § 2.2 (1995) ("Although the intellectual property right confers the power to exclude with respect to the *specific* product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power.").[3] The standardization process, however, eliminates competitive alternatives, and the SEP holder gains market power solely by virtue of the incorporation of its patent into the standard.

That market power, in turn, enables the SEP holders to "capture not just the value of the inventive contribution that they have made—something they ought to be entitled to—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). Even a single SEP may be used to enjoin potential standard implementers from practicing the standard and to exclude standard-compliant products from being imported into the United States. *See, e.g.*, *Cont'l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 425 (1908) ("[A]n inventor receives from a patent the right to exclude others from its use for the time prescribed in the statute."); *id.* at 429 (explaining that this right allows a patentee to exclude competitors from using its patents). This may be true even if that SEP made a relatively insignificant contribution to the value of the overall standard. As a result, after a standard is adopted, the threat of an injunction or exclusion order on an SEP can become "a bargaining tool to charge exorbitant fees." *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring).

[3] *Available at* www.justice.gov/atr/public/guidelines/0558.pdf.

An SEP holder, absent a FRAND commitment, may use the threat of an injunction to demand that a standard implementer pay not only for the incremental value provided by the SEP but also for part of the value provided by standardization itself. For example, because SEPs are incorporated into a variety of products across multiple industries (such as laptops, tablets, mobile phones, printers, medical devices, network equipment, televisions, etc.), granting an exclusion order for an SEP could enable a party to effectively shut down multiple U.S. industries or subject them to a windfall tax that captures the value of the standardization process itself, rather than the incremental value contributed by the patented technology. This occurs because standard implementers may rationally conclude that paying an unreasonable royalty is less risky than fending off infringement litigation and risking the possibility of an exclusion order on standard-compliant products.[4]

This so-called "hold-up" problem is compounded by the fact that a typical standard may incorporate hundreds, if not thousands, of SEPs, and complex products such as computers and smartphones incorporate hundreds of standards. *See* Mark A. Lemley & Carl Shapiro, *Patent Holdup & Royalty Stacking*, 85 Tex. L. Rev. 1991, 1992 (2007); Brad Biddle et al., *How Many Standards in a Laptop? (And Other Empirical Questions)* 1 (2010)[5] (identifying 251 interoperability standards implemented in a modern laptop computer). Moreover, a single product may be subject to an enormous number of patents. For example, it has been estimated

4 Fiona Scott Morton and Carl Shapiro, *Strategic Patent Acquisitions*, 79 Antitrust L.J. 463, 471-72 (2014), *available at* http://faculty.haas.berkeley.edu/shapiro/pae.pdf (explaining that a standard implementer would rationally be willing to settle for more than three times the royalty level that the court deemed reasonable in *Microsoft Corp. v. Motorola, Inc*., No. C10-1823, 2013 WL 2111217 (W.D. Wash., 25 Apr. 2013), in order to avoid a mere 1.2% chance of losing in court).

5 *Available at* http://www.standardslaw.org/How_Many_Standards.pdf.

that a contemporary smartphone incorporates technologies claimed by 250,000 patents.[6] As a result, even if a small fraction of SEP holders demand unreasonably high royalties, the aggregate royalty burden could far exceed the product's price. Demands by multiple SEP holders for supracompetitive royalties cause "harm based on reduced output, higher prices, and thus deadweight loss." Lemley & Shapiro, *supra*, at 2015.

2. FRAND Commitments Play a Central Role in Preventing SEP Holders From Exploiting Unearned Market Power.

In order to prevent SEP holders from exploiting the unearned market power that results solely from a patent's incorporation into a standard, most SSOs, including ETSI, require participants to make and adhere to a FRAND commitment. FRAND commitments are an essential part of the bargain between SSOs and their participants. Under this bargain, patent holders gain the ability to shape industry standards by advocating for the inclusion of their own patented technology into a standard. Because inclusion in a standard has the potential to greatly expand the market for SEPs, companies offering technological alternatives typically compete vigorously for the inclusion of their patents into the standard. In return for the right to do so, they agree to license SEPs on FRAND terms, thereby agreeing to give up the unearned market power that otherwise would result from the patents' incorporation into the standard.

By committing to license its SEPs to all willing licensees, the patentee contractually modifies the scope of remedies that would otherwise be available to it outside the FRAND context. *See, e.g.*, *Ericsson*, 773 F.3d at 1230 (owner of a FRAND-encumbered SEP "cannot have that kind of policy [i.e., of not licensing others] for maintaining a patent monopoly");

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[6] *See* RPX Corp., Amendment No. 3 to Form S-1 (Apr. 11, 2011), at 59, *available at* http://www.sec.gov/Archives/edgar/data/1509432/000119312511101007/ds1a.htm; Steve Lohr, *Apple-Samsung Case Shows Smartphone as Legal Magnet*, N.Y. Times, Aug. 25, 2012, *available at* http://www.nytimes.com/2012/08/26/technology/apple-samsung-case-shows-smartphone-as-lawsuit-magnet.html.

Microsoft Corp. v. Motorola, Inc., 696 F.3d 872, 884 (9th Cir. 2012); *Realtek Semiconductor Corp. v. LSI Corp.*, 946 F. Supp. 2d 998, 1008 (N.D. Cal. 2013). "As with other property rights, patent-related rights can be contracted away," *Deprenyl Animal Health, Inc. v. Univ. of Toronto Innov. Found.*, 297 F.3d 1343, 1357 (Fed. Cir. 2002), and once the patentee agrees to license SEPs on FRAND terms, the scope of its property right is modified. In making a FRAND commitment, the patentee necessarily acknowledges that FRAND royalties provide adequate compensation for use of its patents. *See Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1332 (Fed. Cir. 2014). It thus agrees that it will offer to license all putative standard implementers on FRAND terms, rather than seeking to exclude them from practicing its SEPs.

This contractual promise to accept compensation from *all* implementers of the standard leaves no room for Commission action barring parties willing and able to pay FRAND royalties from selling standard-compliant products. Importantly, because the limitations on exclusionary relief are inherent in the FRAND commitment, they do not depend, as the ALJ incorrectly determined here, on case-specific proof of "hold-up." A FRAND commitment alters the legal landscape, imposing on tribunals the responsibility of enforcing the SEP holder's binding commitment to grant royalties at FRAND rates and not to attempt to extract higher royalties. In *Apple*, for example, the Federal Circuit held that Motorola was not entitled to an injunction for its FRAND-encumbered SEPs because negotiations were ongoing, without requiring Apple to produce evidence that hold-up had occurred. 757 F.3d at 1332. In *Ericsson*, moreover, the Federal Circuit found that no evidence of hold-up had been presented, yet it nonetheless held that royalty calculations for FRAND-encumbered patents must exclude the value conferred by the SEPs' incorporation into a standard. 773 F.3d at 1232-34. The absence of hold-up thus does not dilute the limitations on exclusionary relief inherent in a FRAND commitment—a patentee that has made a FRAND commitment must establish that it has made a FRAND offer *before* asking this Commission for an exclusion order.

B. The Commission Should Protect the Public Interest by Clarifying That an Exclusionary Order Is Inconsistent With the FRAND Commitment Absent Extraordinary Circumstances.

Consistent with the broad consensus reached by courts and competition authorities worldwide, the Commission should protect the public interest by clarifying that an exclusion order based on FRAND-encumbered patents is generally unavailable absent a showing of extraordinary circumstances. We respectfully submit that such extraordinary circumstances exist only where: (1) the respondent refuses to accept (or unjustifiably delays accepting) a license on terms that have been determined to be FRAND-compliant by a court or arbitrator in a final, binding, and non-appealable judgment; (2) the respondent is unable due to financial distress to pay a FRAND royalty; or (3) the patentee has no ability to assert an infringement claim against the importer or its customer, such that in rem jurisdiction over imported goods is the only practical option that the patentee has to prevent continued infringement.

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 the past, the Commission has refused to enter exclusion orders that would cause serious harm to the public interest, and it should do so again here.

Exclusion orders in cases involving SEPs risk severe harm to the public interest by enabling SEP holders to exploit unearned market power, thereby denying producers and consumers the benefits of industry standard-setting. Accordingly, the Commission must "examine thoroughly and carefully" the public interest issues presented in this case. United States Trade Representative, Letter to U.S. Int'l Trade Comm'n (Aug. 3, 2013) at 3.[7] Given the crucial role of FRAND commitments in preserving competition, a straightforward application of § 337's public-interest factors shows the necessity of a ruling that exclusionary remedies are unavailable for SEPs subject to FRAND commitments absent exceptional circumstances.

First, strictly enforcing FRAND 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). Limitations on exclusionary relief for SEPs are necessary to prevent the exploitation of the standard-derived market power that holders of FRAND-encumbered SEPs contractually relinquished when they make FRAND commitments. By definition, FRAND commitments are designed to ensure that patents essential to practicing a standard are available to all standard implementers on fair, reasonable, and non-discriminatory terms. Allowing an SEP holder to obtain an injunction against a party willing to pay FRAND royalties is irreconcilable with this commitment. It empowers SEP holders to extract a disproportionate share of the value of accused products, resulting in harm to consumers in the form of higher prices.

Second, lax enforcement of FRAND commitments jeopardizes the standard-setting process, which has become vital to U.S. innovation, economic growth, and consumer welfare. As the Director of the U.S. Patent and Trademark Office told Congress, "if later folks who have offered their patents under FRAND terms then are able to get exclusion orders or injunctions, you can certainly have some tremendously negative side effects." Hr'g Before the S. Judiciary

7 *Available at* https://ustr.gov/sites/default/files/08032013%20Letter_1.PDF.

Comm., "Oversight of the United States Patent and Trademark Office: Implementation of the Leahy-Smith America Invents Act and International Harmonization Efforts," 41:18 (June 20, 2012).[8] Companies may become reluctant to agree on standards and to incorporate them into their products if SEP holders are allowed to disregard their FRAND commitments and exploit the resulting standard-derived market power through exclusion orders. *See id.* at 90:06 (injunctions could "unravel the incentives that lead people into this process of negotiating the standard essential patents"). Potential standard implementers may instead choose to defer adoption of a standard until it becomes apparent that SEP holders are abiding by their FRAND obligations. This delay in standard adoption injures consumers, who benefit tremendously from the interoperability of high-technology products.

Third, it is in the public interest to apply uniform standards across the various U.S. tribunals, to eliminate uncertainty and prevent inconsistent results, which will harm producers and consumers. Indeed, a broad consensus has emerged among courts and competition authorities worldwide that injunctive and exclusionary relief based on FRAND-encumbered patents should generally be unavailable absent a showing of extraordinary circumstances. The ITC should follow suit to ensure uniform enforcement of FRAND commitments and prevent forum shopping.

Several courts within the United States have considered this issue and determined that the availability of injunctive relief must be narrowly circumscribed in the standard-setting context. The Ninth Circuit, for example, has held that FRAND commitments "guarantee that the patent-holder will not take steps to keep would-be users from using the patented material, such as

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8 *Available at* http://www.judiciary.senate.gov/hearings/watch?hearingid=4540dfa1-4040-f985-52cd-43413882c8ca.

seeking an injunction, but will instead proffer licenses consistent with the commitment made." *Microsoft*, 696 F.3d at 884; *see also Realtek*, 946 F. Supp. 2d at 1008. The Federal Circuit similarly has observed that, under the traditional equitable factors, "[a] patentee subject to FRAND commitments may have difficulty establishing irreparable harm" in seeking an injunction. *Apple*, 757 F.3d at 1332; *see also ActiveVideo Networks, Inc. v. Verizon Commc'ns, Inc.*, 694 F.3d 1312, 1339 (Fed. Cir. 2012) ("In light of the record evidence including ActiveVideo's past licensing of this technology and its pursuit of Verizon as a licensee, no fact finder could reasonably conclude that ActiveVideo would be irreparably harmed by the payment of a royalty (a licensing fee).").[9] That is, by committing to license its SEP to all willing licensees, the patentee necessarily acknowledges that FRAND royalties provide adequate compensation for the use of its patents. It thus implicitly agrees that "monetary damages" are "[]adequate . . . compensat[ion]" for the use of its patents, and it cannot show "irreparable injury" or that "remedies available at law, such as monetary damages, are inadequate to compensate for that injury," *eBay*, 547 U.S. at 391, unless, of course, a defendant will be unable to pay a damages verdict, *see, e.g.*, *Apple*, 757 F.3d at 1343 (Prost, J., concurring-in-part) ("[A]n injunction might be appropriate where, although monetary damages *could* compensate for the patentee's injuries, the patentee is unable to collect the damages to which it is entitled.").

The United States antitrust enforcement agencies and the Patent and Trademark Office agree that exclusionary remedies should be reserved for exceptional circumstances. As the Federal Trade Commission ("FTC") has explained, the invocation of injunctive relief has "the potential to harm consumers by excluding products from the market as a result of an injunction or by

9 *See also Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 915 (N.D. Ill. 2012) ("A FRAND royalty would provide all the relief to which Motorola would be entitled if it proved infringement," and "thus it is not entitled to an injunction.").

leading to higher prices because manufacturers are forced, by the threat of an injunction, to pay higher royalty rates." FTC, Motorola Mobility LLC, Analysis of Proposed Consent Order to Aid Public Comment at 5 (Jan. 3, 2013).[10] *See also* Third Party U.S. FTC's Statement on the Public Interest filed on June 6, 2012 in *In re Certain Wireless Communication Devices, Portable Music & Data Processing Devices, Computers and Components Thereof*, Inv. No. 337-TA-745,[11] and *In re Certain Gaming and Entertainment Consoles, Related Software, and Components Thereof*, Inv. No. 337-TA-752.[12] Under the FTC's view, injunctive relief for FRAND-encumbered patents should thus be available "only in the following four narrowly-defined circumstances":

(1) "the potential licensee is not subject to United States jurisdiction;"

(2) "the potential licensee has stated in writing or in sworn testimony that it will not accept a license for . . . FRAND-encumbered SEPs on any terms;"

(3) "the potential licensee refuses to enter a license agreement for . . . FRAND-encumbered SEPs on terms set for the parties by a court or through binding arbitration;" or

(4) "the potential licensee fails to assure [the patent holder] that it is willing to accept a license on FRAND terms."

Motorola Mobility LLC, Analysis of Proposed Consent Order to Aid Public Comment, at 7.[13]

The Department of Justice ("DOJ") and the Patent and Trademark Office ("PTO") are in accord that "the remedy of an injunction or exclusion order [for FRAND-encumbered patents] may be inconsistent with the public interest." U.S. Dep't of Justice and U.S. Patent &

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[10] *Available at* http://ftc.gov/os/caselist/1210120/130103googlemotorolaanalysis.pdf.
[11] *Available at* www.ftc.gov/os/2012/06/1206ftcwirelesscom.pdf.
[12] *Available at* http://www.ftc.gov/os/2012/06/1206ftcgamingconsole.pdf.
[13] *Available at* http://ftc.gov/os/caselist/1210120/130103googlemotorolaanalysis.pdf.

Trademark Office, Policy Statement On Remedies For Standards-Essential Patents Subject To Voluntary F/RAND Commitments, at 6 (Jan. 8, 2013).[14] As a result, the DOJ and PTO agree that an exclusion order should be available to SEP holders only "in some circumstances, such as where the putative licensee is unable or refuses to take a F/RAND license and is acting outside the scope of the patent holder's commitment to license on F/RAND terms." *Id.* at 7. Such exceptional circumstances may exist where:

> (1) "a putative licensee refuses to pay what has been determined to be a F/RAND royalty,"
>
> (2) a putative licensee "refuses to engage in a negotiation to determine F/RAND terms" or "insist[s] on terms clearly outside the bounds of what could reasonably be considered to be F/RAND terms in an attempt to evade the putative licensee's obligation to fairly compensate the patent holder," or
>
> (3) "a putative licensee is not subject to the jurisdiction of a court that could award damages."

Id.

Competition authorities abroad have also adopted these principles. For example, the European Commission, which enforces the European Union's competition law, has concluded that injunctive relief for FRAND-encumbered SEPs is permissible only where a potential licensee:

> (1) "is in financial distress and unable to pay its debts,"
>
> (2) maintains its assets "in jurisdictions that do not provide for adequate means of enforcement of damages," or

[14] *Available at* http://www.justice.gov/atr/public/guidelines/290994.pdf.

(3) "is unwilling to enter into a licence agreement on FRAND terms and conditions." Commission Decision of 29.04.2014, Case AT.39985-Motorola-Enforcement of GPRS Standard Essential Patents ¶ 427.[15] The European Court of Justice's Advocate General has echoed that view, explaining that requests for injunctive relief by SEP holders outside of these circumstances may constitute an abuse of dominance under EU law (similar to unlawful monopolization under U.S. law). Opinion of Advocate General Wathelet in Case C-170/13, *Huawei Technologies Co. Ltd., v. ZTE Corp., ZTE Deutschland GmbH* ¶ 103 (Nov. 20, 2014).[16]

The Korean Fair Trade Commission has also recently explained:

> [A] claim filed by the owner of a standard-essential patent to seek an injunction on infringements without negotiating with a willing licensee in good faith for the grant of a license is highly likely to be held as unfair conduct. . . . [C]ases where a claim filed to seek an injunction on infringements is less likely be held as unfair conduct [include] . . . [w]here it is found that a willing licensee has no intention to obtain a license, such as a case where a willing licensee refuses to follow a decision made by a court or an arbitration authority, where it is hard to expect the recovery of damages due to the bankruptcy of the willing licensee or any other similar event.

Korea Fair Trade Commission, KFTC Amends Guidelines for Examination of Improper Exercise of Intellectual Property Rights (Dec. 24, 2014).[17] Likewise, the Japanese courts have held that a FRAND defense is available to prospective licensees when SEP holders seek an injunction in violation of Japan's Civil Code. *See* Naoki Okumura, Decision of the Tokyo District Court in the FRAND Defense Case (Oct. 7, 2013).[18]

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15 *Available at* http://ec.europa.eu/competition/antitrust/cases/dec_docs/39985/39985_928_16.pdf.

16 *Available at* http://curia.europa.eu/juris/document/document.jsf?text=&docid=159827&pageIndex=0&doclang=EN&mode=req&dir=&occ=first&part=1&cid=415684.

17 *Available at* http://eng.ftc.go.kr/bbsadm/download.jsp?file_name1=/files/bbs/2015/&file_name2=KFTC amends guidelines for examination of improper exercise of intellectual property rights.PDF.

18 *Available at* http://www.nakapat.gr.jp/english/legal/2013/10/decision_of_the_tokyo_district_1.html.

The considered views of courts and competition enforcement agencies worldwide reflect the fundamental market reality that SEPs provide patent holders with unearned market power that is subject to abuse. Given that market power, the pursuit of exclusionary remedies for FRAND-encumbered SEPs in all but exceptional circumstances is inconsistent with the public interest, and contrary to the fundamental agreement that patentees make when participating in the standard-setting process.

C. Responses to the Commission's Questions as They Relate to the Issues of Remedy and Public Interest.

Due to the limited nature of the publicly available information on the scope of the parties' negotiations, we do not take a position as to whether IDC was negotiating in good faith in offering Microsoft and Nokia a license. We nonetheless wish to briefly respond to some of the questions posed by the Commission as they relate to the issues of remedy and public interest.

1. Whether the Patents Are FRAND-Encumbered

In Question 4, the Commission asked the parties "whether, for purposes of the Commission's consideration of the statutory public interest factors, InterDigital has in effect asserted that the patents in question are FRAND-encumbered, standard-essential patents." We submit that a *prima facie* case that a patent is a FRAND-encumbered SEP is established whenever a party makes a FRAND commitment to an SSO and (1) declares to the SSO that a patent may be an SEP, (2) argues infringement of the patent at issue on the basis that the accused product practices a standard, or (3) asserts in licensing negotiations that the patent is standard essential. Any SEP holder that has participated in the standard-setting process (thereby obtaining its benefits) should have to comply with its associated FRAND commitments unless the party (1) affirmatively drops its claims that the patents are standard-essential and (2) withdraws any claim that the respondent infringed its patents on the basis of practicing the standard. In short, the SEP holder that seeks to use the standard as a sword should be held to the consequences of that election.

2. Whether InterDigital Has Offered Licensing Terms That Reflect the Value of Its Patents

In Question 5, the Commission asked the parties "whether InterDigital has offered Respondents licensing terms that reflect the value of its own patents." Although this question is integral to assessing whether an exclusion order should be available to IDC, we respectfully submit that the Commission is not the proper forum in which to make this determination. Rather, prior to seeking an exclusion order, IDC was obligated to obtain a final, binding judicial or arbitral determination of the FRAND terms for its patents. Requiring SEP holders to establish their compliance with their FRAND obligations is the only way to ensure that exclusion orders (or the threat of exclusion orders) are not employed as a sword to extract higher-than-FRAND royalties from standard implementers and thereby defeat the very purpose of FRAND commitments, to the detriment of producers, consumers, and the public interest. Determining the value of a particular patent (or a portfolio of patents) can be an extremely difficult task, and district courts are best equipped to perform this complex analysis and most experienced with the task of doing so. The ITC does not presently have the expertise to make these complicated findings on damages and valuation. Indeed, adding this responsibility to the ITC's docket would greatly complicate ITC cases and lead to advisory opinions that duplicate the damages determinations that will need to occur at the district court in any event.

If the Commission nonetheless chooses to undertake this analysis, we submit that several basic principles must guide its assessment whether IDC's licensing offers satisfy FRAND. In particular, for multi-component products, a FRAND commitment generally requires royalties to be assessed on the value of the smallest component that implements the standard and to take account of other patents (both SEP and non-SEP) reading on that component. These basic requirements are necessary to ensure that the SEP holder has offered licensing terms that reflect the value of its own patents—and not the value of the standardization itself or of any other patents that are incorporated into the product. Moreover, the royalty rate requested by the SEP holder must reflect only the incremental economic contribution of the SEP and not the unearned market power that the SEP holder agreed to forgo pursuant to its FRAND commitment.

Recent Federal Circuit law confirms the importance of these two key elements of FRAND royalties. *First*, as the Federal Circuit has explained, "[w]here small elements of multi-component products are accused of infringement, calculating a royalty on the entire product carries a considerable risk that the patentee will be improperly compensated for non-infringing components of that product." *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67 (Fed. Cir. 2012). As a result, U.S. law has long held that "the patentee . . . must in every case give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features [of the infringing product]," unless it can show that "the profits and damages are to be calculated on the whole machine, for the reason that the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature." *Garretson v. Clark*, 111 U.S. 120, 121 (1884) (internal quotation marks omitted).

Second, "[j]ust as we apportion damages for a patent that covers a small part of a device, we must also apportion damages for SEPs that cover only a small part of a standard." *Ericsson*, 773 F.3d at 1232-33. As a result, "two special apportionment issues . . . arise" in the context of FRAND-encumbered SEPs:

> [T]he patented feature must be apportioned from all of the unpatented features reflected in the standard. . . . [T]he patentee's royalty must [also] be premised on

> the value of the patented feature, not any value added by the standard's adoption of the patented technology. These steps are necessary to ensure that the royalty award is based on the incremental value that the patented *invention* adds to the product, not any value added by the standardization of that technology.

Id. at 1232.

3. Relevance of Arbitral and Judicial Determination of FRAND Terms

In Questions 7 and 8, the Commission asked about the "legal significance of InterDigital's alleged willingness to accept" an arbitral determination of FRAND terms with respect to the patents in question," and its "alleged unwillingness to obtain a judicial determination of FRAND terms with respect to the patents in question." As discussed above, we submit that it is not enough (as the ALJ determined here) for an SEP holder that has made a FRAND commitment to assert that it has negotiated in good faith. *See* IDR at 54. Instead, before seeking an exclusion order, the SEP holder must establish that the respondent refused to accept (or unjustifiably delayed in accepting) a license on terms that had been independently determined to be FRAND-compliant by a court or binding arbitrator in a final, non-appealable judgment.

Exclusionary relief may be appropriate "where an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect." *Apple*, 757 F.3d at 1332. This, however, does not mean that an SEP holder may force an accused infringer to participate in arbitration in the SEP holder's favored forum. A potential licensee has a fundamental right to adjudication of legal claims, unless both parties agree to arbitration. *See, e.g., First Options of Chi., Inc. v. Kaplan*, 514 U.S. 938, 945 (1995) ("[A] party can be forced to arbitrate only those issues it specifically has agreed to submit to arbitration . . . ."). Absent a binding contract to arbitrate then, the potential licensee is entitled to its day in court. As a result, an accused infringer's mere refusal to arbitrate in a forum specified by an SEP holder does not create a sufficient basis for seeking an exclusion order, particularly where the SEP holder refuses to submit to the jurisdiction of the U.S. courts. On the other hand, IDC's refusal to obtain a judicial determination of FRAND terms should preclude it from obtaining exclusionary relief.

4. Whether Delay Tactics Demonstrate Reverse Hold-Up

In Questions 10 and 12, the Commission asked whether "Respondents' alleged delaying tactics in negotiating with InterDigital provide sufficient evidence of reverse hold-up, regardless of Respondents' offers to license only InterDigital's U.S. patent portfolio," and "whether the RID equates patent infringement and reverse hold-up." Although we do not read the ALJ's opinion as necessarily equating infringement with reverse-hold up, based on the information in the public version of the IDR, the interested parties nonetheless respectfully submit that the behavior the ALJ describes as a "reverse hold-up" appears to be more the behavior of a prudent licensee rather than one who is unwilling to take a FRAND license.

Neither an alleged infringer's unwillingness to agree to the terms demanded by an SEP holder nor its assertion of a challenge to validity or infringement can be viewed as suggesting (let alone establishing) the alleged infringer's unwillingness to enter a license on FRAND terms. As the Federal Circuit has held, "an alleged infringer's refusal to accept any license offer" is insufficient because "the license offered may not be on FRAND terms." *Apple*, 757 F.3d at 1332; *see also Realtek*, 946 F. Supp. 2d at 1007 (noting risk of hold-up). Nor can such actions by an alleged infringer serve as evidence that it is engaging in delay tactics in the negotiations, absent a binding determination that the terms demanded by an SEP holder comply with its FRAND commitments. After all, it is the SEP holder that has contractually agreed to license its SEPs on FRAND terms and to limit the remedies otherwise available to it for infringement. It cannot obtain exclusionary relief without establishing that it has complied with its FRAND obligations, because it has contractually waived its right to preclude parties that are willing to take FRAND licenses from practicing its SEPs and must be held to its bargain.

The Commission should be cautious not to penalize standard implementers for taking the commercially pragmatic step of testing the essentiality, applicability, and validity of an SEP during licensing negotiations. Indeed, SSOs typically do not independently verify the essentiality or validity of asserted patents. As a result, the mere fact that a patent holder declares its patents to be valid and infringed does not make it so. Therefore, an alleged infringer may reasonably seek to challenge the validity or infringement of an asserted patent. The SEP holder, nonetheless, remains bound by the FRAND commitment. Indeed, ETSI's IPR Policy expressly limits the conditions that the SEP holder may place on its FRAND commitment, providing that a FRAND undertaking may be subject *only* "to the condition that those who seek licenses agree to reciprocate." ETSI Rules of Procedure § 6.1. Thus, an SEP holder may not condition its obligation to license on FRAND terms on the condition that a potential licensee also stipulate to the validity or infringement of the patent. The Commission should thus not mistake reasonable due diligence by an alleged infringer for deliberate reverse hold-up.

Finally, it is important to note that an SEP holder breaches its FRAND commitment where it seeks to leverage its SEP portfolio to force a company to buy access to its entire patent portfolio on a worldwide basis. An SEP holder may not condition a license to its SEPs on an agreement to purchase a license for other non-essential implementation patents, because this practice amounts to a tying arrangement. Tying is the conditioning of the sale of a product or service on the customer's agreement to purchase another, separate product or service. *See Ill. Tool Works*, 547 U.S. at 31.

In the case of FRAND-encumbered SEPs, tying non-essential patents to SEPs enables the SEP holder to circumvent the FRAND commitment to license its essential patents on FRAND terms. As a leading economic treatise explains, "[i]f electric utilities were allowed to sell light bulbs and were also allowed to force consumers to buy light bulbs as a condition of receiving electric service, the electric utility could completely circumvent the rate regulation by charging a high price for the light bulbs, unless the regulators also regulated the price for light bulbs." Dennis W. Carlton and Jeffrey M. Perloff, *Modern Industrial Organization* 320 (4th ed. 2005). The same principle applies when non-essential patents, which are not subject to price constraints, are tied to SEPs, which are subject to the price constraints of the FRAND regime. As a result, a refusal to accept an offer to license IDC's entire patent portfolio cannot serve as evidence that the Respondents were also unwilling to accept a FRAND license for IDC's SEPs. Of course, the parties may willingly choose to negotiate broad cross-licenses that provide worldwide coverage for each other's patent portfolios. The SEP holder may not, however, insist on such broad coverage as a condition for licensing its SEPs.

5. Whether Respondents' Licensing Counteroffers Satisfy the Requirements of the ETSI IPR Policy

In Question 11, the Commission asked whether "Respondents' licensing counteroffers satisfy the requirements of the ETSI IPR Policy." The interest parties respectfully submit that this question is based on a false premise: The ETSI IPR Policy does not require putative standard implementers to make FRAND-compliant counteroffers in order to benefit from an SEP holder's FRAND commitment. Only the party that makes the commitment undertakes obligations to offer licenses on FRAND terms and, as mentioned above, it may subject such a license only to the condition that those who seek licenses agree to reciprocate. ETSI Rules of Procedure § 6.1. Nonetheless, the DOJ and PTO have noted that, under some circumstances, insistence on “terms clearly outside the bounds of what could reasonably be considered to be F/RAND” may serve as evidence that the standard implementer is unwilling to negotiate a FRAND license. *See* U.S. Dep’t of Justice and U.S. Patent & Trademark Office, Policy Statement On Remedies For Standards-Essential Patents Subject To Voluntary F/RAND Commitments, at 7 (Jan. 8, 2013). Any such assessment, however, requires careful consideration of all the factors relevant to calculating a FRAND royalty, and is appropriately made by a federal district court (or in binding arbitration before an agreed-upon tribunal).

III. CONCLUSION

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

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Respectfully submitted,

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CERTIFICATE OF SERVICE

I, Thomas G. Hungar, certify that on July 10, 2015, copies of the foregoing RESPONSE TO THE COMMISSION'S NOTICE TO REVIEW IN PART THE FINAL INITIAL DETERMINATION ON REMAND AND SUBMISSION REGARDING THE PUBLIC INTEREST, REMEDY AND BONDING BY INTERESTED PARTIES INTEL CORPORATION, DELL INC., AND HEWLETT-PACKARD COMPANY were delivered, pursuant to Commission regulations, to the following interested parties as indicated:

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The Honorable Theodore R. Essex Administrative Law Judge U.S. International Trade Commission 500 E Street, S.W., Room 317 Washington, DC 20436	Via Hand Delivery (Two Copies) and Electronic Mail to tamara.foley@usitc.gov and john.kaplan@usitc.gov
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