

**UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.**

In the Matter of

**CERTAIN 3G MOBILE HANDSETS
AND COMPONENTS THEREOF**

**Inv. No. 337-TA-613
(REMAND)**

**WRITTEN SUBMISSION ON THE PUBLIC INTEREST OF
FEDERAL TRADE COMMISSION CHAIRWOMAN EDITH RAMIREZ**

As Chairwoman of the United States Federal Trade Commission, I submit this statement in response to the United States International Trade Commission's Notice of Request for Written Submissions in Investigation No. 337-TA-613 (Remand).¹

This investigation raises an important and unresolved question for the ITC: what standard should the ITC use to evaluate evidence concerning patent hold-up when a complainant seeks an exclusion order for alleged infringement of a FRAND-encumbered standard essential patent?² I recommend that, as part of its public interest analysis before issuing an exclusion order,³ the ITC require a SEP holder to prove that the implementer is unwilling or unable to take a FRAND license.⁴ This standard would ensure that an exclusion order issues only when it would not facilitate patent hold-up and thus only when such an order would be consistent with the public interest. It would also establish a balanced approach to ITC remedies by ensuring that a SEP holder follows through with its FRAND licensing commitment, while at the same time

¹ The views reflected in this statement are my own and do not necessarily reflect the views of the Commission or of any other Commissioner. I take no position on the facts of Investigation No. 337-TA-613 (Remand), or whether Section 337 remedies should issue.

² The threat of an exclusion order or other injunctive relief against a willing licensee "has the potential to distort competition by enabling SEP owners to negotiate high royalty rates and other favorable terms, after a standard is adopted, that they could not credibly demand beforehand." Third-Party U.S. Fed. Trade Comm'n's Statement on the Public Interest at 2, Certain Wireless Commc'ns Devices, Inv. No. 337-TA-745 (ITC filed June 6, 2012) [hereinafter 2012 FTC Statement]. This is commonly known as "patent hold-up." The standard recommended in this statement would also address concerns about "reverse hold-up." Reverse hold-up reflects the potential for a standards implementer to engage in, for example, a "constructive refusal to negotiate a FRAND license with the SEP holder or refusal to pay what has been determined to be a FRAND royalty." Letter from Ambassador Michael B.G. Froman, U.S. Trade Rep., to the Hon. Irving A. Williamson, Chairman, U.S. Int'l Trade Comm'n at 2 (Aug. 3, 2013) [hereinafter Ambassador Froman Letter].

³ The ITC has a statutory obligation to consider, among other things, "competitive conditions in the United States economy . . . and United States consumers" and refrain from issuing Section 337 remedies that are not in the public interest. 19 U.S.C. §§ 1337(d)(1), (f)(1).

⁴ This statement uses the terms FRAND and RAND interchangeably.

recognizing that both the SEP holder and the standards implementer have a duty to negotiate in good faith towards a meaningful resolution of FRAND issues.⁵

I.

Consistent with Ambassador Froman’s 2013 instruction that the ITC should make explicit findings on hold-up and reverse hold-up “to the maximum extent possible,”⁶ the ITC issued a remand order on March 24, 2014 directing the Administrative Law Judge to “take evidence concerning and/or briefing on whether there is patent hold-up or reverse hold-up in this investigation.”⁷ The ALJ held an evidentiary hearing and issued an Initial Determination on Remand in April 2015, concluding “that there is no evidence of hold-up, that there is evidence of reverse hold-up, and that [the] public interest does not preclude issuance of an exclusion order.”⁸

In reaching this conclusion, the ALJ held that the implementer carries the burden of establishing the existence of patent hold-up and found that “there is no evidence that [the patent

⁵ To mitigate the threat of patent hold-up, standard setting organizations often seek FRAND licensing commitments from SEP holder participants, often as a *quid pro quo* for incorporating their patented technology in the standard. *See Microsoft Corp. v. Motorola, Inc.*, No. C10–1823, 2013 WL 2111217, at *6 (W.D. Wash. Apr. 25, 2013) (“In order to reduce the likelihood that owners of [standard] essential patents will abuse their market power, many standard setting organizations, including the IEEE and ITU, have adopted rules relating to the disclosure and licensing of essential patents. The policies often require or encourage members of the standards setting organizations to identify patents that are essential to a proposed standard and to agree to license their essential patents on reasonable and non-discriminatory (“RAND”) terms to anyone who requests a license. Such rules help to ensure that standards do not allow essential patent owners to extort their competitors or prevent competitors from entering the marketplace.”); *see also Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 314 (3d Cir. 2007) (commenting that lock-in creates the potential for anticompetitive effects and that “[i]t is in such circumstances that measures such as FRAND commitments become important safeguards against monopoly power” (citing Daniel G. Swanson & William J. Baumol, *Reasonable and Nondiscriminatory (RAND) Royalties, Standards Selection, and Control of Market Power*, 73 ANTITRUST L.J. 1, 5, 10–11 (2005))).

⁶ Ambassador Froman Letter at 3.

⁷ Revised Notice of Comm’n Determination to Remand Investigation to the Chief Admin. L. Judge at 4, Certain 3G Mobile Handsets, Inv. No. 337-TA-613 (Remand) (ITC Mar. 24, 2014).

⁸ Initial Determination on Remand at ii & 69, Certain 3G Mobile Handsets, Inv. No. 337-TA-613 (Remand) (ITC Apr. 27, 2015).

holder] has violated its duty of good faith, or tried for [] patent hold-up.”⁹ According to the ALJ, a SEP holder may comply with its FRAND commitment simply by offering to license its SEPs—even on terms that may not be FRAND.¹⁰ Also critical to the ALJ’s finding of no hold-up was the fact that throughout the parties’ dispute, the SEP holder had continued to negotiate.¹¹ That fact, coupled with a lack of evidence from respondents as to what the FRAND rate would be, led the ALJ to conclude the SEP holder had satisfied its FRAND obligations.¹²

On June 25, 2015, the ITC determined to review the RID’s public interest findings, among other findings, and invited interested government agencies to file written submissions on the issues of remedy, the public interest, and bonding.¹³ I submit this statement because I respectfully disagree with the reasoning and standard applied by the ALJ to determine whether an exclusion order for infringement of a FRAND-encumbered SEP would be in the public interest.

II.

In my view, as the party that has made a commitment to license on FRAND terms and is nonetheless seeking an exclusion order, the SEP holder should have the burden of establishing that the putative licensee is unwilling or unable to take a license on FRAND terms.¹⁴ Further, the ITC should not regard as dispositive of the factual issue of hold-up the fact that a SEP holder has continued to negotiate with an implementer even after filing a complaint with the ITC.

⁹ *Id.* at 44, 48–49.

¹⁰ *Id.* at 41 (concluding that even if a SEP holder’s offers do “not meet the FRAND requirement,” they nonetheless demonstrate that the SEP holder “was trying to reach a licensing agreement”).

¹¹ *Id.*

¹² *Id.* at 43-46.

¹³ Notice of Comm’n Decision to Review in Part a Final Initial Determination on Remand; Request for Written Submissions at 4, 6, Certain 3G Mobile Handsets, Inv. No. 337-TA-613 (Remand) (ITC June 25, 2015).

¹⁴ I believe that an IPR policy is instructive, but not dispositive, on the question of whether an exclusion order is in the public interest.

Reasonableness cannot be presumed merely from the fact of negotiations. Any negotiation that takes place after initiation of a Section 337 investigation occurs under the threat of an exclusion order. Because implementers are often locked into practicing the relevant standard, this threat may lead to a license on terms that reflect not only “the value conferred by the patent itself” but also the “additional value—the hold-up value” conferred by the patent’s incorporation into the standard.¹⁵ The threat may be particularly outsized where the asserted SEP relates to a small component of a complex multicomponent product and the SEP holder seeks exclusion of the entire product.¹⁶

The ALJ’s decision to place the burden of proving patent hold-up on the respondent was based on his view that the prospect of hold-up is remote and unlikely to occur.¹⁷ But the danger that bargaining conducted in the shadow of an exclusion order will lead to patent hold-up is real. For example, in *Microsoft Corp. v. Motorola, Inc.*, Motorola sought to exclude Microsoft’s gaming consoles from the United States and demanded that Microsoft pay royalties between \$6–8 per console.¹⁸ The court determined that the RAND rate was 3.471 cents per unit for the 802.11 standard and 0.555 cents per unit for the H.264 standard.¹⁹ Similarly, in *Realtek*

¹⁵ *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 913 (N.D. Ill. 2012), *aff’d in part and rev’d and vacated in part*, 757 F.3d 1286 (Fed. Cir. 2014); Fed. Trade Comm’n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* at 21-23 (2011), available at <http://www.ftc.gov/os/2011/03/110307patentreport.pdf>; see also Carl Shapiro, *Injunctions, Hold-Up, and Patent Royalties*, 12 AM. L. & ECON. REV. 280 (2010); Mark Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 1992-93 (2007) (“[T]he threat of an injunction can enable a patent holder to negotiate royalties far in excess of the patent holder’s true economic contribution. Such royalty overcharges act as a tax on new products incorporating the patented technology, thereby impeding rather than promoting innovation.”).

¹⁶ 2012 FTC Statement at 3; Lemley & Shapiro, *supra* note 15, at 1992–93.

¹⁷ Certain 3G Mobile Handsets, Inv. No. 337-TA-613 (Initial Determination on Remand at 43-44, 61 (April 27, 2015) [hereinafter RID] (“[Since 2011] the IP community has been vigilant and has kept a watchful eye on the ITC to ensure that patent holdup was not occurring. The result has been not a single case of holdup has been noted.”).

¹⁸ *Microsoft Corp.*, 2013 WL 2111217, at *99.

¹⁹ *Id.* at *85, 100.

Semiconductor Corp. v. LSI Corp., LSI, after filing an ITC action seeking an exclusion order, offered to license Realtek its SEPs in exchange for a royalty that exceeded the selling price of Realtek’s standard-compliant products.²⁰ A federal district court, after enjoining LSI from pursuing an exclusion order, determined that the cumulative RAND royalty for the patents at issue was 0.19% of the selling price.²¹

Consequently, when the ITC is deciding whether to issue an exclusion order *before* FRAND terms are set,²² it should require the complainant to prove that the respondent is unwilling or unable to take a license on FRAND terms.²³ This will mitigate the potential for an exclusion order to facilitate actual patent hold-up, while preserving the ITC’s ability to issue Section 337 remedies that are consistent with the public interest.²⁴

A SEP holder may demonstrate an implementer’s unwillingness in a number of ways.²⁵ First, an implementer may be unwilling if it affirmatively demonstrates that it will not negotiate with the complainant. An implementer may also be unwilling if it engages in a “constructive

²⁰ 946 F. Supp. 2d 998, 1002 (N.D. Cal. 2013).

²¹ *Realtek Semiconductor Corp. v. LSI Corp.*, No. C-12-3451, 2014 U.S. Dist. Lexis 81673, at *23 (N.D. Cal. June 16, 2014); *see also Innovatio IP Ventures, LLC Patent Litigation*, MDL No. 2303, 2013 WL 5593609, at *9 (N.D. Ill. Oct. 3, 2013) (“[i]n light of all of the testimony, and particularly the evidence about Broadcom’s real-world concerns about patent hold-up, the court concludes that patent hold-up is a substantial problem that RAND is designed to prevent”).

²² The threat of patent hold-up is reduced, or eliminated, once the FRAND terms have been set through either party agreement or neutral adjudication. In that instance, the ITC can determine whether the implementer has refused to be bound by the previously-established FRAND terms. If that is the case, the issuance of an exclusion order could be in the public interest.

²³ While not applicable to the ITC, the injunction standard that applies in federal district court is instructive: the patent holder is the one that carries the burden of establishing that an injunction is appropriate. *eBay v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

²⁴ Compl. ¶ 15, Matter of Motorola Mobility LLC and Google Inc., File No. 121-0120 (F.T.C. Jan. 3, 2013) (“A SEP-holder that makes a voluntary FRAND commitment promises to license its SEPs on fair and non-discriminatory terms to any willing to accept a license, *i.e.* a ‘willing licensee,’ and thus relinquishes its right to exclude a willing licensee from using technologies covered by its SEPs to implement a standard.”), *available at* <https://www.ftc.gov/sites/default/files/documents/cases/2013/01/130103googlemotorolacmpt.pdf>.

²⁵ The examples that are set forth are not intended to be exhaustive.

refusal to negotiate a FRAND license with the SEP owner or refusal to pay what has been determined to be a FRAND royalty.”²⁶ For example, this may occur when an implementer refuses to license the patent holder’s FRAND-encumbered SEPs unless it also obtains a license to the patent holder’s differentiating patents, or insists on terms that are clearly outside a reasonable interpretation of FRAND. When there is a dispute between the parties about what terms are FRAND terms, the meaning of FRAND must first be determined by a neutral adjudicator in order for the implementer’s offer to be evaluated in the context of a FRAND range.²⁷ An implementer may be unable to take a license if it is bankrupt, or otherwise financially unable to satisfy the terms of a FRAND license. Finally, an exclusion order may be in the public interest when the respondent is outside the jurisdiction of the United States District Courts or is otherwise judgment-proof.

FRAND licensing negotiations can be complex. As the ALJ recognized, it is challenging to determine, during the course of party negotiations, whether an offer is reasonably within a FRAND range.²⁸ It is likewise possible that parties will offer supra- or sub-FRAND rates in the process of eventually settling on FRAND terms. Therefore, if, during the course of the Section 337 investigation, a FRAND range is determined, I recommend that the ITC delay the effective date of Section 337 remedies and provide parties an opportunity to execute a FRAND license.

The parties in that instance would face respective risks that the exclusion order will (1) go into

²⁶ Ambassador Froman Letter at 2; *see also* U.S. Dept. of Justice and U.S. Pat. & Trade. Office, *Policy Statement on Remedies for Standards Essential Patents Subject to Voluntary F/RAND Commitments*, (Jan. 8, 2013) at 7.

²⁷ A FRAND range should reflect the market value of the patented technology before the standard at issue was adopted by the SSO, taking into account then-available competing alternatives.

²⁸ *See* RID at 42 (“To prove a violation of FRAND, as it is defined in ETSI, there must be a voluntary agreement or a trial in a district court, and only after the court determines a rate, could we look retrospectively at the negotiations and determine if the offers were within the FRAND range. (FRAND contracts provide for a range of acceptable results. While some offers could clearly be outside the range, there is no mechanism for finding the range prior to litigation.)).

effect if the respondent refuses to make a FRAND offer; or (2) be vacated if the ITC finds that the complainant refuses to accept a FRAND offer.

There are also other situations where a standards implementer would be a willing licensee and therefore it would not be in the public interest for an exclusion order to issue. This would include cases where the implementer commits to be bound by terms that either the parties themselves will determine are FRAND, or that will be determined by neutral adjudication.²⁹

Evaluating an implementer's willingness to license in this way would also address any concerns about reverse hold-up. By adopting the unwilling licensee standard articulated in this statement, the ITC can provide greater clarity as to when an exclusion order may be appropriate.

Finally, I do not agree with the ALJ's reasoning that "[b]y arguing that the products do not practice the patents, the respondents are arguing that the patents are not Standard Essential Patents."³⁰ If a respondent presents affirmative defenses, including arguments about non-infringement, invalidity, or unenforceability, these defenses should not be deemed to waive the alternative position that if the ITC rejects the asserted affirmative defenses, the patent is a SEP and hence the SEP holder's FRAND commitment applies.³¹

²⁹ For instance, a respondent may affirm its willingness to license by instituting a declaratory judgment action or other proceeding in which a court will set FRAND terms.

³⁰ RID at 39 ("As the respondents have presented no evidence that the patents are standard essential, they have failed to prove they are standard essential, and that they are entitled to claim the rights available under the ETSI FRAND policy.") and at 37 ("Respondents in this case have vigorously asserted that the patents in issue are not essential, but rather are not infringed. By so claiming, they risk losing the benefit of any defense they may have under the ETSI agreement regarding FRAND rights that protect the interests of third parties.").

³¹ See generally *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 137 (2007) (holding that a licensee is not required "to break or terminate [its licensing agreement] before seeking a declaratory judgement in federal court that the underlying patent is invalid, unenforceable, or not infringed"); see also Dec'n and Order at 8, *Matter of Motorola Mobility LLC and Google Inc.*, File No. 121-0120 (F.T.C. July 24, 2013) (for purposes of the order, "challenging the validity, value, infringement, or essentiality of an alleged infringing FRAND patent does not constitute a statement that the Potential Licensee will not license such FRAND patent").

III.

In sum, in cases where a FRAND-encumbered SEP holder seeks an exclusion order, I urge the ITC, as part of its public interest analysis, to require the SEP holder to prove that the respondent is unwilling or unable to enter into a FRAND license before issuing an exclusion order. Based on my experience evaluating the competitive issues involving FRAND-encumbered SEPs, I believe that this standard would clearly and effectively address concerns about patent hold-up and therefore the impact on “competitive conditions in the United States economy and . . . United States consumers[.]”³² as required by Sections 337(d)(1) and (f)(1).

³² 19 U.S.C. §§ 1337(d)(1), (f)(1).