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202.588.0302

**STANDARD-ESSENTIAL PATENTS:
AN INCREASINGLY CONTENTIOUS ISSUE
AT THE U.S. INTERNATIONAL TRADE COMMISSION**

by
Paul M. Bartkowski & Evan H. Langdon
Adduci, Mastriani & Schaumberg LLP



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ABOUT THE AUTHORS

Paul M. Bartkowski and **Evan H. Langdon** are attorneys at Adduci, Mastriani & Schaumberg LLP, an international trade law firm based in Washington, DC with one of the largest and top-ranked Section 337 practices in the United States. Mr. Bartkowski previously worked as an attorney in the Office of General Counsel at the U.S. International Trade Commission. He received his J.D. from The George Washington University Law School. Mr. Langdon previously worked as a primary examiner at the U.S. Patent and Trademark Office and is a contributing editor to the American Bar Association's book entitled, "A Lawyer's Guide to Section 337 Investigations Before the U.S. International Trade Commission, Second Edition." He received his J.D. from the Catholic University of America, Columbus School of Law. This article provides the authors' views alone and not those of Adduci, Mastriani & Schaumberg LLP or its clients.

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INTRODUCTION

The increasing popularity and complexity of electronic devices has led to a corresponding increase in standard-setting organizations ("SSOs"), which allow industry participants to decide on technology standards for devices in a given field. Standards, however, are often covered by patents owned by various members of the organization. SSOs, therefore, typically require that the owners of patents essential to adherence to a particular standard license those patents according to fair, reasonable, and non-discriminatory ("FRAND") terms.¹ While the efforts of SSOs have aided the proliferation of previously rare or nonexistent devices in the consumer electronics industry and many business communities, legal issues have arisen in recent years regarding the appropriate treatment of express or implied obligations contained in FRAND agreements. Specifically, there is concern that the ability to seek exclusionary relief on standard-essential patents at the International Trade Commission ("ITC" or "Commission") will jeopardize the SSO system, with negative effects on competition and consumer welfare.

¹ Also referred to as "RAND" (reasonable and non-discriminatory) terms.

This CONTEMPORARY LEGAL NOTE addresses how the ITC has treated patents that are essential to practice industry standards and provides general considerations for how these issues may be addressed in the future.

I. BACKGROUND

The ITC has sole authority to investigate alleged violations of 19 U.S.C. § 1337 ("section 337"). Section 337 makes unlawful "unfair methods of competition and unfair acts" in the importation of articles, although the vast majority of cases today involve allegations of patent infringement and other intellectual property violations.² Under the statute, where a party is found in violation of section 337, the ITC can issue exclusion orders blocking infringing imports from entry into the U.S., and it may also issue cease-and-desist orders prohibiting respondents from distributing or selling infringing articles from their remaining U.S. inventory. These injunctive-type remedies, along with other advantages of ITC litigation, have made section 337 a powerful tool for patent holders seeking to curtail unfair foreign competition that results from the importation of goods that infringe U.S. patents. As such, the ITC often deals with high-tech consumer electronics and electronic devices subject to standards set by one or more SSOs. Accordingly, the ITC will likely continue dealing with the legal ramifications and realities of FRAND licensing agreements made pursuant to SSO bylaws.

² See 19 U.S.C. § 1337(a)(1)(A)-(B). Section 337(a)(1)(B) defines, *inter alia*, patent-related violations under section 337.

II. COMMISSION TREATMENT OF SSO ISSUES

Respondents in section 337 actions involving SSOs generally have asserted affirmative defenses that standard-essential patents are unenforceable, asserting theories of equitable estoppel, contract, implied license, and waiver. In considering these arguments, the Commission has indicated that the fact that an asserted patent is subject to a FRAND obligation does not preclude a finding that a respondent has violated section 337 with respect to that patent. As discussed in more detail below, the Commission has not squarely addressed whether a limited exclusion order or cease-and-desist order is appropriate in such cases. Past investigations have terminated before the presiding Administrative Law Judge ("ALJ") issued his final Initial Determination, or have resulted in a finding of no violation on other grounds, and the Commission has therefore not squarely addressed whether remedial orders are appropriate with respect to patents subject to FRAND commitments.³ Recent cases, however, present the Commission opportunities to do so.

In *Certain Gaming and Entertainment Consoles, Related Software, and Components Thereof* ("*Gaming and Entertainment Consoles*"), the fullest and most recent treatment of FRAND obligations, the administrative law judge rejected respondent Microsoft's affirmative defenses of implied license and

³ See, e.g., *Certain Wireless Communication Equipment, Articles Therein, & Prods. Containing the Same*, Inv. No. 337-TA-577, Order No. 9, at 1 (Oct. 3, 2006) (denying respondent Sony's motion for summary determination on the affirmative defenses of equitable estoppel, contract, and patent misuse because genuine issue of fact remained). Because the investigation terminated with a settlement agreement, the Commission never determined whether remedial orders were appropriate.

equitable estoppel.⁴ In that case, four of the five patents complainant Motorola asserted against Microsoft are subject to FRAND commitments.⁵

Microsoft argued that Motorola's FRAND commitments to the SSO created a "legal obligation to grant RAND licenses to all comers," evidenced by the fact that potential licensees were empowered to sue Motorola to enforce that obligation in district court.⁶ It also argued that a previous Commission decision, *Certain Dynamic Random Access Memories, Components Thereof and Products Containing Same* ("*DRAMs*"),⁷ governed, and that injunctive relief was inappropriate. In *DRAMs*, which did not deal with a FRAND obligation or standard-essential patent, the ALJ concluded that, because complainant Texas Instruments had an obligation to respondent Hitachi to negotiate a license renewal in good faith, "the failure to negotiate results in an implied license of all [relevant] patents, even those issued after the date on which the license expired."⁸ The ALJ concluded that Texas Instruments' promises were "inconsistent with a suit against Hitachi for an injunction" and, thus, Texas Instruments was barred "from recourse to the equity power of the Commission."⁹

The ALJ disagreed with Microsoft and distinguished the decision in *DRAMs* on the basis that it addressed "mutual obligations" relied on by the

⁴ *Gaming and Entertainment Consoles*, Inv. No. 337-TA-752, Initial Determination (Pub. Version), at 282 (May 10, 2012).

⁵ *Id.*

⁶ *Id.* at 289.

⁷ Inv. No. 337-TA-242.

⁸ *DRAMs*, Inv. No. 337-TA-242, Initial Determination, at 707 (May 21, 1987).

⁹ *Id.* at 730.

parties in that investigation, as opposed to Motorola's "unilateral assurances" to SSOs to provide FRAND licenses in the instant case.¹⁰ Further, in dismissing Microsoft's FRAND-related defenses, the ALJ stressed that Microsoft "was not able to cite one case in which a section 337 remedy was foreclosed due to the existence of RAND obligations" and, thus, concluded that the Commission retained the authority to issue exclusionary relief in spite of Motorola's RAND commitments.¹¹

The ALJ also rejected Microsoft's equitable estoppel defense. In doing so, he found that Microsoft established two of the three elements of equitable estoppel.¹² Specifically, the ALJ found that Motorola's assurances to the SSOs and their members that it would provide FRAND licenses to its essential patents were misleading, and that Microsoft would suffer economic and other injury if Motorola were to obtain an exclusion order. The ALJ, however, rejected the defense on the basis that he found no evidence that "Microsoft relied on any statements by Motorola to embark on, or continue in, any course of conduct."¹³

Another recent FRAND-related decision by a Commission ALJ rejected similar equitable defenses on technical grounds. In that investigation, *Certain*

¹⁰ *Gaming and Entertainment Consoles*, Initial Determination (Pub. Version), at 290.

¹¹ *Id.* at 292.

¹² *Id.* at 298-306 (relying on the Federal Circuit's opinion in *A.C. Aukerman Co. v. R.L. Chades Construction Co.*, 960 F.2d 1020, 1042-43 (Fed. Cir. 1992) setting forth three elements for equitable estoppel: (1) "the statements or conduct of the patentee . . . must communicate something in a misleading way;" (2) "[t]he accused infringer must show that, in fact, it substantially relied on the misleading conduct of the patentee in connection with taking some action;" and (3) "the accused infringer must establish that it would be materially prejudiced if the patentee is now permitted to proceed")

¹³ *Gaming and Entertainment Consoles*, Initial Determination (Pub. Version), at 304.

Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers ("Electronic Devices"),¹⁴ respondent Apple argued that complainant Samsung's membership in the European Telecommunications Standard Institute (ETSI), of which Apple was also a member, created an implied license to use the patents-in-suit.¹⁵ Alternatively, Apple argued that FRAND policy considerations precluded Samsung from seeking an exclusion order under section 337.¹⁶

In an order denying Apple's motion for summary determination, the ALJ rejected both of Apple's arguments. The ALJ, applying French law, first concluded that Samsung's membership in the ETSI, as well as its agreement to license essential patents on FRAND terms, did not in fact create a license.¹⁷ Second, the ALJ found that provisions of the ETSI membership agreement providing redress for non-compliance did not apply to "[s]pecific licensing terms and negotiations."¹⁸ In other words, the ALJ determined that the ITC was not the "appropriate tribunal" to address whether or not Samsung had breached its FRAND obligations to the ETSI.¹⁹ It is worth noting that, because the ALJ's decision merely denied summary determination on these issues, the

¹⁴ Inv. No. 337-TA-794.

¹⁵ *Electronic Devices*, Inv. No. 337-TA-794, Order No. 47 (Pub. Version), at 35-38 (Mar. 30, 2012) (denying Apple's motion for summary determination terminating the investigation as to two patents based on Samsung's agreements with chip suppliers and FRAND commitments).

¹⁶ *Id.* at 36.

¹⁷ *Id.* at 37-38.

¹⁸ *Id.* at 38.

¹⁹ *Id.* at 36.

matter is not yet presented for Commission review. The Commission will have the opportunity to address the FRAND issue in *Electronic Devices* after the ALJ substantively rules on the issue as part of his final Initial Determination.

These recent cases may be the first opportunity for the Commission, as opposed to an ALJ, to determine whether to issue an exclusion order where the patent in suit is subject to a FRAND commitment. In response to the Commission's requests for public comments on the public interest factors in the *Gaming and Entertainment Consoles*²⁰ and in *Certain Wireless Communication Devices, Portable Music and Data Processing Devices, Computers and Components Thereof* ("Portable Music and Data Processing Devices"),²¹ numerous third parties, legislators, and the Federal Trade Commission argued that the Commission should decline to enter remedial orders in those investigations with respect to the asserted patents that are subject to Motorola's commitment to license on FRAND terms. While *Gaming and Entertainment Consoles* gives the fullest treatment of FRAND related issues by an ALJ, the Commission recently remanded that investigation back to the ALJ.²² Accordingly, the first investigation in which the Commission will have an opportunity to address FRAND-related issues is *Portable Music and*

²⁰ Inv. No. 337-TA-752, *Notice of Request for Statements on the Public Interest* (May 9, 2012).

²¹ Inv. No. 337-TA-745, *Notice of Request for Statements on the Public Interest* (May 10, 2012). *Portable Music and Data Processing Devices* also involves Motorola and standard-essential patents. The ALJ's final Initial Determination in that case does not include a detailed analysis of RAND-related issues or defenses.

²² *Gaming and Entertainment Consoles*, Inv. No. 337-TA-752, *Notice of Commission Determination to Review a Final Initial Determination Finding of Violation of Section 337; Remand of the Investigation to the Administrative Law Judge* (June 29, 2012).

Data Processing Devices. In a notice issued on June 25, 2012 in that investigation, the Commission requested briefing specific to FRAND-based defenses and whether exclusionary relief is appropriate in cases involving patents subject to FRAND commitments.²³

III. GENERAL CONSIDERATIONS REGARDING SSOs AND THE ITC

Despite the fact that the Commission has not yet squarely addressed these issues, some light can be shed on how FRAND issues at the Commission might be resolved in the near future. In the *DRAMs* investigation, discussed above, the ITC indicated that it was not the appropriate forum for patent litigation involving a contractual commitment to renegotiate an expired license in good faith.²⁴ There, the ALJ concluded that Texas Instruments' promise to negotiate a license renewal was "inconsistent with a suit against Hitachi for an injunction" and, thus, Texas Instruments was barred "from recourse to the equity power of the Commission."²⁵ Texas Instruments' agreement to negotiate a license renewal is arguably analogous to an SSO member's agreement to negotiate a license on FRAND terms. Indeed, issuing an exclusion order or cease-and-desist order on a patent subject to a FRAND commitment could be seen as inconsistent with SSOs' general policy requiring

²³ *Portable Music and Data Processing Devices*, Inv. No. 337-TA-745, Notice of Commission Decision to Review in Part a Final initial Determination Finding a Violation of Section 337; Request for Written Submissions (June 25, 2012).

²⁴ *DRAMs*, Inv. No. 337-TA-242, Initial Determination at 730 (May 21, 1987).

²⁵ *Id.* at 730.

members to make FRAND commitments.²⁶ In particular, SSOs seek to prevent members from advocating the use of their patents as an industry standard, only to try to enjoin competitors from practicing that standard.

On the other hand, the Commission is a creature of statute and is limited in its discretion to decide upon and issue relief. Of note in the FRAND context, section 337 mandates that the Commission investigate violations of section 337 upon complaint, and provides that the Commission shall determine whether or not a violation has occurred in each investigation unless one of two statutory exceptions applies.²⁷ These exceptions provide that the Commission may terminate an investigation without making such a determination only by (1) issuing a consent order or (2) on the basis of an agreement between the private parties to the investigation, including an agreement to present the matter for arbitration.²⁸ Therefore, as long as a complaint has been filed, the Commission appears bound by section 337 to institute an investigation and determine whether a violation has occurred—regardless of whether a patent subject to a FRAND commitment is implicated.²⁹

Notably, however, even if the Commission finds that a violation has occurred with respect to a patent subject to FRAND commitment, the

²⁶ *Cf. Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540, slip op. at 18-19 (N.D. Ill. June 22, 2012) ("I don't see how, given FRAND, I would be justified in enjoining Apple . . . unless Apple refuses to pay a royalty that meets the FRAND requirement.").

²⁷ *See* 19 U.S.C. § 1337(c).

²⁸ *Id.*

²⁹ *Spansion v. Int'l Trade Comm'n*, 629 F.3d 1331, 1358 (Fed. Cir. 2010) (noting the Commission's limited discretion in determining whether to issue the statutorily provided relief: "By statute, the Commission is required to issue an exclusion order upon the finding of a Section 337 violation absent a finding that the effects of one of the statutorily-enumerated public interest factors counsel otherwise.").

Commission must still consider the statutory public interest factors set forth in section 337(d)(1) in considering whether to issue remedial orders. Section 337(d)(1) reads, in relevant part, that the Commission "shall" exclude infringing articles if a violation is found, "*unless*, after considering 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, it finds that such articles should not be excluded from entry."³⁰ As discussed above, whether these factors weigh against remedial orders in the *Portable Music and Data Processing Devices* investigation will likely be a hotly contested issue and the next battleground in the FRAND debate.

The Commission's determination to review the ALJ's Initial Determination in *Portable Music and Data Processing Devices* comes after consideration of third-party comments on the public interest considerations regarding FRAND issues. Virtually all of the comments, submitted in both *Gaming and Entertainment Consoles* and *Portable Music and Data Processing Devices*, call for a denial of injunctive relief. Specifically, the comments raise concerns over the potential effects of section 337 relief on competition and U.S. consumers.³¹ The Federal Trade Commission advocated that the ITC find that section 337's public interest factors support denial of an

³⁰ 19 U.S.C. § 1337(d)(1).

³¹ See, e.g., *Gaming and Entertainment Consoles*, Inv. No. 337-TA-752, Third Party U.S. Federal Trade Commission's Statement on the Public Interest (June 6, 2012); *Portable Music and Data Processing Devices*, Inv. No. 337-TA-745, Third Party U.S. Federal Trade Commission's Statement on the Public Interest (June 6, 2012).

exclusion order unless the patent-holder has made a reasonable royalty offer. The recent determination to review in *Portable Music and Data Processing Devices* provides the Commission an opportunity to consider and weigh the tensions between FRAND licensing and Commission remedial orders.

CONCLUSION

The fact that a complainant is a member of an SSO and its asserted patent is subject to FRAND obligations is not dispositive on the issue of whether a respondent has violated section 337 with respect to that patent. In investigations involving such patents, the Commission is required to investigate whether a violation has occurred under section 337, which is informed by principles of patent law. If the Commission determines that a violation has occurred, the Commission must then consider the statutorily contemplated remedies in light of the public interest factors set forth in section 337. Recent cases may inform whether the Commission views FRAND obligations as relevant to, or dispositive of, its public interest analysis in such investigations.