

## **Should the ITC Issue Exclusion Orders for Standard-Essential Patents?**

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The International Trade Commission (ITC) is currently reviewing a landmark case directed towards standard essential patents. The ongoing dispute between Apple and Samsung has put onto the ITC's docket a section 337 patent infringement action, with Samsung bringing suit against Apple in *In the Matter of Certain Electronic Devices Including Wireless Communication Devices, Portable and Data Processing Devices, and Table Computers*. No. 337-TA-794. The ITC is set to issue a ruling regarding exclusion orders for standard-essential patents.

Standard essential patents refer “to patents that are essential to a standard—i.e., patents that claim technologies selected by a standards development organization (“SDO”).” *Research In Motion Ltd. v. Motorola, Inc.*, 644 F.Supp.2d 788, 790 (N.D. Tex. 2008). When “a patent becomes an essential patent, it gains undue significance as a result,” and “[c]ompanies that produce products governed by a standard become ‘locked in’ to the technologies included in the standard.” *Id.* at 790-791. Since holders of the standard-essential patents control the exclusive rights of a technology required within a technology subgroup, “owners of essential patents gain market power.” *Id.* at 791. To balance this market power and “[i]n order to reduce the likelihood that owners of essential patents will abuse their market power, SDOs have adopted rules, policies, and procedures that control the disclosure and licensing of essential patents.” *Id.* This balancing of power has led to the creation of intellectual property rights policies (“IPR policies”), which “usually require owners of essential patents to commit to license those patents on fair, reasonable, and nondiscriminatory (“FRAND”) terms.” *Id.*

Title 19, Section 1337 of the United States Code is directed to unfair practices in import trade. Under 19 U.S.C. § 1337(a)(1)(B), the “importation into the United States, the sale for importation, or the sale within the United States after importation” is “unlawful activity” if that importation “infringe[s] a valid and enforceable United States patent or a valid and enforceable United States copyright registered under title 17” or if the imported articles “are made, produced, processed, or mined under, or by means of, a process covered by the claims of a valid and enforceable United States patent.” 19 U.S.C. § 1337(a)(1)(B).

Under 19 U.S.C. § 1337(d)(1), if the ITC, “as a result of an investigation under this section” determines that “there is a violation of this section, it shall direct that the articles concerned, imported by any person violating the provision of this section, be excluded from entry into the United States.” 19 U.S.C. § 1337(d)(1). The ITC possesses some discretion in its actions, and if “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,” the ITC has the authority to deny the exclusion. *Id.*

“Section 337 investigations conducted by the U.S. International Trade Commission most often involve claims regarding intellectual property rights, including allegations of patent infringement and trademark infringement by imported goods.” United States International Trade Commission, *Intellectual Property Infringement and Other Unfair Acts*, Accessed March 18, 2013, [http://www.usitc.gov/intellectual\\_property/](http://www.usitc.gov/intellectual_property/). Section 337 investigations “are conducted pursuant to 19 U.S.C. § 1337 and the Administrative Procedure Act.” *Id.* Echoing the § 1337 language, the “primary remedy available in Section 337 investigations is an exclusion order that directs Customs to stop infringing imports from entering the United States.” *Id.*

In June 2011, Samsung initiated a Section 337 infringement action against Apple, asserting that Apple infringed five of its patents, including U.S. Patent Nos. 7,706,348 (“348”) and 7,486,644 (“644”), which relate to Universal Mobile Telecommunications Systems (“UMTS”). USITC Complaint No. 337-TA DN 2824. Patent ‘348 is directed to an “[a]pparatus and method for encoding/decoding transport format combination indicator in CDMA mobile communication system.” U.S. Patent No. 7,706,348 (issued April 27, 2010). Patent ‘644 is directed to a “[m]ethod and apparatus for transmitting and receiving data with high reliability in a mobile communication system supporting packet data transmission.” U.S. Patent No. 7,486,644 (issued Feb. 3, 2009). In its complaint, Samsung provided that the “348 Patent is generally related to, among other things, third generation (“3G”) wireless technology . . . the standards of which are created and governed by the Third Generation Partnership Project (“3GPP”).” USITC Complaint No. 337-TA DN 2824 at 5. Samsung alleged that the “644 Patent also relates to the 3GPP/UMTS standards that govern many, if not most, cell phones sold in the U.S.” *Id.* at 8. Samsung alleged that the Apple iPhone 3G, iPhone 3GS, iPhone 4, iPod Touch, iPad, iPad 3G, iPad 2, and iPad 2 3G were all infringing products and requested a permanent exclusion order.

Judge E. James Gildea issued an Initial Determination in September 2012. Judge Gildea “held that no violation of Section 337 . . . has occurred in the importation into the United States, the sale for importation, or the sale within the United States after importation, of certain electronic devices . . . by reason of infringement of one or more of claims” of any of the asserted patents. 2012 WL 4752221 (U.S. Intern.Trade Com’n), 1.

On November 19, 2012, the ITC issued a Notice of Commission Determination to Review the Final Initial Determination. ITC Inv. No. 337-TA-794 (Nov. 19, 2012). In this notice, the ITC requested briefing on several questions, including:

“1. Does the mere existence of a FRAND undertaking with respect to a particular patent preclude issuance of an exclusion order based in infringement of that patent?”

“2. Where a patent owner has offered to license a patent to an accused infringer, what framework should be used for determining whether the offer complies with a FRAND undertaking?”

“3. Would there be a substantial cost or delay to design around the technology covered by the ‘348 and ‘644 patents . . . [and] [c]ould such a design-around still comply with the relevant ETSI standard?”

“4. Do the patents cover relatively minor features of the accused devices?”

*Id.* at 3.

In Apple’s responsive submission, it argued that the “FRAND undertaking precludes the issuance of an exclusion order save in exceptional circumstances where a potential licensee has refused to pay a royalty after a U.S. court has determined that the royalty to be FRAND.” Respondent Apple Inc.’s Reply Submission to Inv. No. 337-TA-794 at 1. Apple cited Judge Richard Posner in *Apple Inc. v. Motorola, Inc.*, arguing that Posner implied “that injunctive relief is indeed unavailable for infringement of a patent governed by FRAND,” and that “[b]y committing to license its patents on FRAND terms, Motorola committed to license [its declared-essential patent] . . . [and] implicitly acknowledged that a royalty is adequate compensation for a license to use that patent.” *Id.* at 3, citing *Apple Inc. v. Motorola, Inc.* 869 F.Supp.2d 901, 914 (N.D. Ill. 2012). Apple added in its response that an exclusionary remedy would “result in the immediate removal from the market of a firm [sic] that offers innovative and competitive products.” *Id.* at 5. Apple argued that “an exclusionary remedy on a FRAND patent would demonstrate that any owner of any such patent is able to hold up implementers by exploiting market power conveyed by the fact of standardization, rather than by the intrinsic value of the invention.” *Id.* at 6.

In its response, Apple stated that there was potential harm to the public, as “facing the threat of an exclusion order, the prospective licensee’s upper bound for a royalty is no longer just the inherent value of the FRAND-encumbered patent, pre-standardization, but rather the lost profits it faces if it had to cease selling standards-compliant products.” *Id.* at 7. With regards to competition, Apple argued that since “there are currently a number of competing products on the market . . . standard-setting is achieving its goal of promoting robust competition and consumer choice.” *Id.* at 10. Apple provided that there is a substantial benefit to Samsung, as “[s]tandardized provides enormous benefits to holders of SEPs . . . [as] having technology standardized can instantly provide access to a mass market and the potential of high-volume royalties.” *Id.* at 13.

Procedurally, Apple argued that “[a] party making a FRAND commitment agrees to limit itself to money damages and disclaims the right to seek injunctive relief or an exclusionary order,” and that “if the parties cannot negotiate a FRAND royalty rate, the appropriate forum to set a rate is a district court.” *Id.* at 15.

Apple argued that it “has no need to design around the ‘348 or ‘644 patents because the ALJ correctly found that it infringes neither.” *Id.* at 21. Even if Apple was to accept Samsung’s interpretation of the patents, Apple argued that “those patents relate to a very minor portion of the functionality contained in the baseband chips.” *Id.* at 21.

In Samsung’s response to Apple’s submission, Samsung asserted that “Apple failed to seek any such licenses from Samsung when it entered the smartphone market . . . and has repeatedly chosen to litigate rather than voluntarily take licenses to standard essential technologies.” Complainant Samsung’s Corrected Response to Inv. No. 337-TA-794 at 2. Samsung added that Apple “refused the cross-license that Samsung offered, and then rejected a later offer for a FRAND license limited to Samsung’s UMTS patents.” *Id.* at 3. Samsung argued that “it is Apple that has been engaging in what some experts have identified as the real problem of ‘reverse hold up,’ by refusing to come to the

negotiating table or present a meaningful counteroffer for what it believes to be a FRAND rate.” *Id.*

Samsung argued that there is no “compelling reason why a categorical rule precluding exclusion orders for declared-essential patents should be adopted” and that there is “no legitimate basis for requiring a court to determine a FRAND rate before the patent holder can seek relief under Section 337.” *Id.* at 3-4. It added that if “owners of SEPs are deprived of essential means of enforcing their patents against companies like Apple that have not indicated they are even willing to negotiate a FRAND license, then the patent holders” may not undertake “the risk and R&D investments associated with full participation in the standard-setting process.” *Id.* at 4. Samsung asserted that the preclusion of exclusionary orders may lead “companies that merely implement standards . . . to litigate rather than voluntarily enter into licenses” for SEPs because the “only downside might be an order to pay damages in the amount of the FRAND license rate that would otherwise have been negotiated.” *Id.* at 4.

Samsung alleged that “Apple cannot point to any evidence of coordinated behavior among SEP holders to hold up implementers of standards.” *Id.* at 7. Additionally, Samsung asserted that no “public interest factors preclude an exclusion based on Samsung’s FRAND commitments” and that “the facts and circumstances of each case should be analyzed, including whether—as was the case here—the infringer was not a [sic] interested in negotiating a license in good faith.” *Id.* at 10.

When determining whether an offer complies with a FRAND undertaking, Samsung argued that “a ‘one size fits all approach’ to this question should not apply.” *Id.* at 10. Rather, since “[e]ach SSO (standard-setting organization) may have different requirements for the undertakings that IPR owner must make . . . the body of rules and industry practice governing the FRAND undertaking should therefore always be considered.” *Id.* at 11. Samsung added that if “an SSO specifies a particular analytic framework that its members must apply in licensing declared-essential patents,” the ITC may “employ that framework in deciding whether a respondent has met its burden,” but that if “the standards body does not define what FRAND means . . . then no single framework will exist.” *Id.* at 11.

In evaluating infringement, Samsung asserted that Apple is infringing its ‘348 and ‘644 patents and that “Apple’s design around are either (1) not feasible, or (2) infringing implementations.” *Id.* at 15. Samsung also argued that “Apple has options, such as . . . agreeing to take a license from Samsung, and choosing to sell devices that practice standards other than HSUPA (High Speed Uplink Packet Access).” *Id.* at 16. In response to Apple’s statement that Samsung’s patents are trivial, Samsung responded that the “‘348 patent is critical to ensuring the products communicate at the right data rate,” and that the “‘644 patent ensures reliable communications.” *Id.* at 16-17.

The Office of Unfair Import Investigations (“OUII”) filed a response to the ITC’s FRAND questions. Reply Brief of the Office of Unfair Import Investigations to Inv. No. 337-TA-794. OUII agreed that “the mere existence of an undertaking to license a patent on fair, reasonable and non-discriminatory terms does not, by itself, preclude issuance of an exclusion order.” *Id.* at 1-2. The Office added that “whether an exclusion order is appropriate despite the existence of a FRAND obligation must be decided on a case-by-

case basis.” *Id.* at 2. In determining whether “a FRAND-based affirmative defense has merit,” the ITC must “consider whether a contract in fact exists, and if so, whether the respondent is in fact a third-party beneficiary of that contract.” *Id.* at 6. Additionally, the “specific words of the patent holder’s contract with the SSO must be examined,” and respondent “must also establish that it is one of the third-party beneficiaries to the FRAND contract.” *Id.* at 7. OUII challenged the essentiality of Samsung’s technology, asserting that “[i]f, as here, it is possible to implement the standard without practicing the patent at issue, then in fact it is not a standard-essential patent that would trigger FRAND obligations.” *Id.* at 7.

OUII argued that “it is possible for a product to comply with the ETSI (European Telecommunications Standards Institute) standards”, as “such technology already exists in the marketplace.” *Id.* at 8.

The ITC is set to make its ruling in *In the Matter of Certain Electronic Devices Including Wireless Communication Devices, Portable and Data Processing Devices, and Table Computers* on May 31, 2013.