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1 PURPOSE

This contribution will address the following areas: (1) ANSI's role in the U.S. voluntary consensus standardization system and its activities in the area of intellectual property rights ("IPR"); (2) ANSI's current views on issues relating to the inclusion of patents, copyrighted software or trademarks in standards, and issues relating to the assertion of copyright in the standards themselves; and (3) ANSI's assessment of the current legal landscape in the United States relating to these topics, including recent actions by the U.S. Federal Trade Commission ("FTC") and the U.S. Department of Justice ("DOJ") and recent case law developments concerning standards-essential patents ("SEP).

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2 REFERENCES

Past ANSI Contributions to GSC IPR WGs.

3 CONTENT

A. The American National Standards Institute ("ANSI") and the U.S. Voluntary Consensus Standardization System

For nearly 100 years, the U.S. voluntary consensus standardization system has been administered and coordinated by the private sector through ANSI, with the cooperation of federal, state, and local governments. ANSI also is the established forum for the U.S. voluntary standardization community, and serves as the United States representative to two major, non-treaty international standards organizations: The International Organization for Standardization ("ISO") and, through the United States National Committee ("USNC") of the International Electrotechnical Commission ("IEC").[1]

[1] ANSI also represents the U.S. in the International Accreditation Forum ("IAF"), which has the goal of reducing duplicative conformity assessment requirements (that often serve as non-tariff barriers to trade) by providing the basis for product certifications and quality system certifications/registrations performed once, in one place and accepted worldwide. ANSI also participates in the international Quality Systems Assessment Recognition Program ("QSAR"). Because of the breadth of its participation in standards activities worldwide, the Institute is able to provide a central source of information and education on standards, conformity assessment programs and related activities in the U.S. and abroad. Through active participation in regional standardization organizations such as COPANT (for Latin America) and PASC (for the Pacific Rim), ANSI provides strong advocacy for the use of U.S. standards and technology throughout the global marketplace. In doing so, ANSI works very closely with the National Institute of Standards and Technology ("NIST"), the Office of the U.S. Trade Representative ("USTR"), the U.S. Departments of Commerce and State, and other federal agencies, as well as with hundreds of trade associations, companies, and consumer and labor organizations.

ANSI is a unique federation with membership drawn from industry, standards developers and other professional, technical, trade, labor, academic and consumer organizations, and government agencies. In its role as an accreditor of U.S. voluntary consensus standards developing organizations ("SDOs"), ANSI helps to maintain the integrity of the standards development process and determines whether standards meet the necessary criteria to be approved as American National Standards. ANSI's approval of these standards (currently numbering over 10,000) is intended to verify that the principles of openness and due process have been followed and that a consensus of materially interested stakeholder groups has been reached. ANSI and its accredited SDOs are often characterized as the "*de jure*" or more formalized standards-setting process in the United States. Two standards organizations that regularly participate in the GSC are accredited by ANSI: the Alliance for Telecommunications Industry Solutions ("ATIS") and the Telecommunications Industry Association ("TIA").

ANSI plays an important role in shaping the policies and strategies of the United States voluntary consensus standardization system, including those policies and strategies related to intellectual property law. For example, in 2005, ANSI brought together a cross section of public and private sector interests to reexamine the principles and strategies that guide how the United States develops standards and participates in the international standards-setting process. What emerged from that collaboration was the *United States Standards Strategy*, a document that identifies the goals and strategies of the United States' standards community and provides a vision for the future of the U.S. standards system in today's globally competitive economy.[2]

The *United States Standards Strategy* addresses the importance of intellectual property rights, whether such rights relate to patents, trademarks or copyrights that are embedded in standards or copyright protection for the standards themselves. It also lists among its "tactical initiatives" the following:

- Government should advance and respect policies at home and abroad that ensure the continued ownership and control of the copyrights and trademarks of standards developers.

- All elements of the U.S. standardization system should support policies that allow U.S. standards developers to participate in international standards development activity without jeopardizing their copyrights and trademarks, and that recognize the flexible funding models that exist within the U.S.

The U.S. standardization system and its consensus-based, public-private partnership is reflected in the *National Technology Transfer and Advancement Act of 1995* **("NTTAA")**, Public Law 104-113. This law directs all federal government agencies to use for regulatory, procurement, and other agency

[2] www.us-standards-strategy.org The *United States Standards Strategy* was approved by the ANSI Board of Directors on December 8, 2005 (and was updated and re-approved on December 2, 2010).

activities, wherever feasible, standards and conformity assessment solutions developed or adopted by voluntary consensus standards bodies in lieu of developing government-unique standards or regulations. The NTTAA also encourages government agencies to participate in standards development processes, where such involvement is in keeping with an agency's mission and budget priorities.

The NTTAA remains the cornerstone for promoting the use of voluntary consensus standards and conformance in both regulation and procurement at the federal level. The Office of Management and Budget ("OMB") – through its **OMB Circular A-119** – confirms that close interaction and cooperation between the public and private sectors is critical to developing and using standards that serve national needs and support innovation and competitiveness. The OMB is currently proposing to **revise Circular A-119** in light of changes that have taken place in the world of regulation, standards and conformity assessment since the Circular was last revised in 1998.

The federal government is a key player in the U.S. standardization system. Thousands of federal agency representatives participate in the private-sector led standards development process consistent with the mandate and authority under the NTTAA and OMB Circular A-119. Even more importantly, government participation means that government users understand both the intent and content of specific standards and conformity assessment activities. Government representatives currently participate in the activities of hundreds of standards developing organizations, at both the technical and policy levels.

ANSI administers a policy committee that formulates the Institute's positions on intellectual property issues in domestic, regional, and international policy areas. The ANSI Intellectual Property Rights Policy Committee (the "ANSI IPRPC") is responsible "for broad-based policy and position decisions regarding national, regional, and international intellectual property matters, including the global trade aspects of such matters."

In keeping with this broad mandate, the IPRPC provides input and guidance on IP-related matters both internationally and domestically. For example, on the international front, the IPRPC has provided input to:

- ISO's Technical Management Board ("TMB") regarding the German Institute for Standardization's ("DIN's") proposed new work item for a new ISO standard on Patent Valuation (March 2008);
- the Government of India regarding a proposed document on "Open Standards" for e-Governance (submitting ANSI's own "Critical Issues Paper on Open Standards"[3] for consideration) (November 2008);

[3] http://publicaa.ansi.org/sites/apdl/Documents/Standards%20Activities/Critical%20Issues/Open-Stds.pdf

- the European Commission ("EC") regarding a definition of "Open Standard" used by the European Interoperability Framework ("EIF") for pan-European e-Government Services (submitting ANSI's Critical Issues Paper on Open Standards for consideration) (November 2009);
- the China National Institute of Standardization ("CNIS") raising questions and offering comments regarding its proposed Guide for the Implementation of the Inclusion of Patents in National Standards[4] (February 2010);
- the Organisation for Economic Co-Operation and Development ("OECD") Working Party regarding a Competition and Regulation Roundtable Discussion on Standard Setting (June 2010);
- the European Standardisation System ("EXPRESS") regarding its report concerning *"Standardisation for a competitive and innovative Europe: a vision for 2020"* (June 2010);
- the United Kingdom Cabinet Office Public Consultation on Open Standards (submitting the ANSI Critical Issues Paper on Open Standards for consideration) (April 2012); and
- the Standardization Administration of the People's Republic of China ("SAC") regarding "SAC Draft Administrative Rules on National Standards Involving Patents (Interim)" (January 2013).

On the domestic front, the IPRPC provided comments to:

- the Federal Communications Commission ("FCC") regarding a petition for Rulemaking and Request for Declaratory Ruling Filed by the Coalition United to Terminate Financial Abuses of the Television Transition LLC (CUT FATT) (May 2009);
- the National Science and Technology Council's Subcommittee on Standards ("NSTC SoS") regarding its request for information concerning the *"Effectiveness of Federal Agency Participation in Standardization in Select Technology Sectors"*[5] (March 2011);
- in response to the Federal Trade Commission's ("FTC's") request for comments on standard-setting issues (addressing the purpose of ANSI's Patent Policy, the rationale behind RAND and views on *ex ante* licensing discussions[6]) (June 2011);
- the Office of the Federal Register, National Archives and Records Administration ("NARA") regarding its request for input on the incorporation by reference of private-sector standards into U.S. law[7] (June 2012);

[4] http://publicaa.ansi.org/sites/apdl/Documents/News%20and%20Publications/Critical%20Issues/CNIS%20patents%20in%20standards/CNIS-Submission_ANSI_Patents_20100228.pdf

[5] http://publicaa.ansi.org/sites/apdl/Documents/News%20and%20Publications/Links%20Within%20Stories/ANSI%20Response%20to%20Request%20for%20Information%20on%20Federal%20Agencies-030411.pdf

[6] http://publicaa.ansi.org/sites/apdl/Documents/Standards%20Activities/Critical%20Issues/Federal%20Register%20Notice%20-%20Request%20for%20Comments%20and%20Announcement%20of%20Workshop%20on%20Standard-Setting%20Issues/ANSI_Response-FTC_re_Standard-setting_Issues_FINAL.pdf

[7] http://publicaa.ansi.org/sites/apdl/Documents/Standards%20Activities/Critical%20Issues/FederalRegister_IncorporationByReference_IBR/ANSI%20Response%20IBR_041012.pdf. A final rule was issued by NARA on November 7, 2014: https://www.federalregister.gov/articles/2014/11/07/2014-26445/incorporation-by-reference

- the Office of Management and Budget ("OMB"), regarding whether and how to supplement OMB Circular A-119, Federal Participation in the Development and Use of Voluntary Consensus Standards and in Conformity Assessment Activities[8] (June 2012) and in response to the OMB's February 11, 2014 Request for Comments on a Proposed Revision to OMB Circular A-119[9] (May 2014); and
- the USPTO/National Academy of Sciences ("NAS") IPR Policy Committee Study regarding how leading national, regional and multinational standards bodies address issues of IP arising in connection with the development of technical standards (2013).

The IPRPC is also responsible for developing ANSI positions on issues relating to the incorporation of essential patents or other proprietary intellectual property in national, regional or international standards and for developing ANSI positions on such matters. Through the work of ongoing task groups, the Committee is currently:

- Looking at the topic of reciprocity and defensive suspension as possible additions to the ANSI Patent Policy and/or Guidelines (Reciprocity Task Force); Examining the ANSI Patent Policy and/or Guidelines and considering recommendations whether to include text in both, either or neither document to address the disclosure of essential patents (or patents that might become essential) (Disclosure Task Force); and
- Reviewing the SAC Draft Regulations relating to essential patents and providing input to the China Standards Organization (SAC Draft Regulations Task Force).

Another IPRPC Task Force was formed to examine whether ANSI should add language to its Patent Policy and/or Guidelines about subsequent transfer of underlying essential patents (Patent Transfer Task Force). That Task Force recommended language that was ultimately approved and will be made a part of ANSI's 2015 *Essential Requirements.*

The IPRPC also had agreed to create a task force to address the question of whether limitations should be placed on the right of a patent holder who has made a F/RAND licensing commitment to seek to exclude a willing and able licensee from the market through an injunction. This "Injunction" Task Force was disbanded in April 2014, as it was not considered an appropriate time for ANSI to take action, but the IPRPC considered that the Task Force could be reinstated in the future if and when IPRPC members agreed the time was right.

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[8] http://publicaa.ansi.org/sites/apdl/Documents/News%20and%20Publications/Critical%20Issues/Copyright%20on%20Standards%20in%20Regulations/Copyright%20on%20Standards%20in%20Regulation.pdf

[9] http://publicaa.ansi.org/sites/apdl/Documents/Standards%20Activities/Critical%20Issues/FederalRegister_OMBA119/2014/ANSI%20Response%20OMB%20A-119%20050614.pdf

B. ANSI's Views on Issues Relating to the Inclusion of Proprietary Intellectual Property in Standards

1. Patents

The intersection of standards setting, patent rights, and antitrust concerns is not new. For decades the standards community has fashioned related policies and procedures that allow for the inclusion of patented inventions in standards. The **ANSI Patent Policy** applies to the development of all American National Standards ("ANS"). It was written with the objective of finding a balance among the rights of the patent holder, the interests of competing manufacturers seeking to implement the standard, the consensus of the technical experts from different stakeholder groups on the desired content of the standard, the concerns and resources of the SDO, the impact on consumer welfare, and the need to avoid unnecessary strictures that would discourage participation in the standards development process. The Policy's efficacy is, in ANSI's view, evidenced by the fact that there has not been any adjudicated abuse of the process relating to patents that has occurred in connection with any ANS.

The ANSI Patent Policy is very similar to the common patent policy of ISO, IEC, ITU-T, and ITU-R. These policies recognize that it is permissible to develop standards that include the use of patented items if there are sufficient technical reasons to justify that approach. While standards developers routinely choose whether or not to include technology (patented or not) from various sources, care should be taken not to exclude technology for anti-competitive reasons. As recognized by the United States Federal Trade Commission in *American Society of Sanitary Engineering,*[10] if a standards development organization comes to enjoy significant market power, its decisions to exclude technology from a standard can unreasonably restrain trade by misleading consumers, depriving them of information about the performance of the product, or even excluding a technically advanced product from the market.[11]

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[10] *See* American Society of Sanitary Engineering, Dkt. C-3169, 106 F.T.C. 324 (1985). It is noteworthy that the invention at issue in that case – the Fillpro valve designed by J.H. Industries – which was "excluded" from the standard was not an "essential" technology. If permitted by the standard, it would be one of many conforming implementations of the standard.

[11] In February 2001 then FTC Chainman Timothy J. Muris summarized the case, which challenged a policy that prohibited the inclusion of a patented technology in a standard, in a presentation to the American Bar Association. In that presentation Chairman Muris stated: "At issue was a small business that had developed an innovative toilet tank fill valve. The evidence indicated that this new valve protected against backflow, or water contamination. The manufacturers of this new valve also claimed that its unique design conferred a number of performance advantages over existing technology. The critical fact was that the new valve prevented backflow through a device other than the one that the ASSE standard specified. The ASSE refused to develop a standard for evaluating the ability of this new valve to prevent backflow. In essence, 'the existing manufacturers did not sanction an innovative product unless they could also produce it.' The consent order required, among other things, that the ASSE stop refusing requests for issuance of a standard or modification of an existing standard for a product merely because only one or a small number of manufacturers patent or make the product."
See: http://www.ftc.gov/speeches/muris/intellectual.shtm#N_52_#N_52_

Under the terms of ANSI's Patent Policy (and the patent policy published by ISO, IEC and ITU), the "best" solution – which may belong exclusively to a patent holder – can be incorporated into a standard and made available to all relevant manufacturers to exploit in competing commercial products. In return for "sharing" its patented technology (including making it available to its competitors), the patent holder may receive reasonable compensation from implementers of the standard under terms that are non-discriminatory. The patent laws were designed in part to stimulate innovation and investment in the development of new technologies, which can greatly contribute to the success and vitality of a standardized solution to an interoperability or functionality challenge.

The ANSI Patent Policy and/or the accompanying **Patent Guidelines** reflect a number of characteristics, including the following:

- The ANSI Patent Policy focuses on patents containing essential patent claims;
- It does not impose a duty on a patent holder to undertake a search of its patent portfolio;
- It does not address patent applications;
- Assessment of the existence and validity of asserted patent rights is conducted outside of the standards-setting venue;
- Specific licensing terms are discussed outside of the standards-setting venue; and
- Nondiscriminatory under the ANSI Patent Policy does not necessarily mean identical.

An extended discussion of each of these characteristics is included in **ANSI's GSC-16 Contribution**, at pages 4 to 11.

2. Copyrighted Software

ANSI publishes guidelines relating to the incorporation of copyrighted software/source code in American National Standards. ***See* ANSI Guidelines on Software in Standards**. The ANSI IPRPC generally concurs with the approach taken by the ITU-T, which is to discourage the inclusion of essential copyrighted material in standards. A standard requiring the use of particular software should be an exceptional situation and agreed to within the consensus body. Whenever possible, a standard should be based on functional specifications and should be an unencumbered expression of a proposed implementation as opposed to mandating the use of a specific and proprietary copyrighted software/source code.

3. Marks

The ANSI IPRPC publishes guidelines related to the inclusion of trademarks, service marks, or certification marks in ANSs. ***See* ANSI Guidelines on Embedded Trademark**. The primary concern relating to the inclusion of a mark in a standard is whether it would appear as if the standard is endorsing one particular proprietary product or service over competing ones. As a general rule, standards should provide a description of features from which competing and interoperable implementations can be developed. The appearance that a standard endorses any particular products, services or companies should be avoided. Therefore, proper names, trademarks, service marks, or certification marks of specific companies, products, or services should not be included in the text of a standard if it appears that it might cause this effect.

4. Issues Relating to Copyright in the Standards Themselves

There are a number of decisions of interest to the standards community relating to "copyrightability" of standards that have been issued by a number of United States courts. For example, the U.S. Courts of Appeals for the Second and Ninth Circuits have addressed the issue whether the text of a privately authored standard enters the public domain *ipso facto* when subsequently it is referenced into law by a government body at any level (federal, state, local). These courts have held that it does not. *See, CCC Information Service, Inc. v. Maclean Hunter Market Reports, Inc.*, 44 F.3d 61 (2d Cir. 1994) and *Practice Management Information Corporation v. AMA*, 121 F.3d 516 (9^{th} Cir. 1997).

In early 2001, the Court of Appeals for the Fifth Circuit addressed the issue whether a private-sector standard loses its copyright protection when it becomes a law or regulation in *Veeck v. Southern Building Code Congress International, Inc.*, 241 F.3d 398 (5^{th} Cir. 2001). The Southern Building Code Congress International ("SBCCI") developed and promulgated building codes that are often made mandatory through legislative action by local governments. Mr. Veeck purchased a copy of SBCCI's privately copyrighted codes (complete with a shrink-wrap license agreement). He then posted the codes on his website as the law of the cities of Anna and Savoy, Texas, which had referenced the codes into their local laws. ANSI, along with a number of SDOs, submitted an amicus brief in the *Veeck* case in support of SBCCI.

The Fifth Circuit issued an *en banc* decision on June 7, 2002. *See Veeck v. Southern Building Code Congress International, Inc.*, 293 F.3d 791 (5^{th} Cir. 2002) (*en banc*). The full Court narrowly voted in favor of Mr. Veeck, holding that SBCCI retains the copyright in its standard, but that "[w]hen those codes are enacted into law … they become to that extent 'the law' of the governmental entities and may be reproduced or distributed as 'the law' of those jurisdictions." 293 F.3d at 802. The Court further observed that laws are not subject to federal copyright law, and "public ownership of the law means that 'the law' is in the 'public domain' for whatever use the citizens choose to make of it." 293 F.3d at 799.

The Court also addressed arguments made by *amici* supporting SBCCI's perspective:

> Several national standards-writing organizations joined SBCCI as *amici* out of fear that their copyrights may be vitiated simply by the common practice of governmental entities' incorporating their standards in laws and regulations. This case does not involve references to extrinsic standards. Instead, it concerns the wholesale adoption of a model code promoted by its author, SBCCI, precisely for use

as legislation…. In the case of a model code … the text of the model serves no other purpose than to become law.

A lengthy discussion of these cases is included in **ANSI's GSC-16 Contribution**, at pages 14 to 19.

More recently, the issue of standards incorporated by reference ("IBR") has arisen in connection with the process by which federal agencies publish regulations in the *Federal Register*. Under the publications rules of the Federal Register, 5 U.S.C. Section 552, information may be incorporated by reference into, and thereby "deemed published" in, the Federal Register if made "reasonably available to the class of persons affected thereby."[12] In the past few years, concerns have been raised about whether the "reasonably available" requirement should be changed in light of expectations of free online access. For example, Professor Peter Strauss of Columbia University petitioned the National Archives and Records Administration ("NARA") in 2012, arguing that IBR-ed materials in the CFR should be free.[13] After soliciting and then publishing comments on this petition, NARA's Office of the Federal Register ("OFR"), recently published its conclusion that "reasonably available" does not mean "for free."[14] In coming to this conclusion, NARA/OFR relied on a comprehensive analysis of the issue conducted by ACUS, the Administrative Conference of the United States, in December 2011.[15]

ANSI's position on incorporation by reference is that the text of standards and associated documents that have been incorporated by reference should be available to all interested parties on a reasonable basis, but that does not necessarily mean "for free" and could include appropriate compensation as determined by the SDO/copyright holder. Some SDOs make certain standards available online on a read-only basis, while others make standards available at discounts or without charge to consumers, policymakers, and small businesses. ANSI has been very active in this area, submitting responses to *Federal Register* notices on the issue of IBR, participating in workshops conducted by ACUS and the OMB, hosting and co-hosting forums and workshops on the subject, and providing testimony before the U.S. House of Representatives Committee on the Judiciary, Subcommittee on Courts, Intellectual Property, and the Internet.[16]

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[12] http://www.archives.gov/federal-register/cfr/ibr-locations.html#why

[13] March 2012, *Federal Register*: https://www.federalregister.gov/articles/2012/03/22/2012-6935/incorporation-by-reference

[14] October 2013, *Federal Register*: https://www.federalregister.gov/articles/2013/10/02/2013-24217/incorporation-by-reference

[15] http://www.acus.gov/sites/default/files/Recommendation-2011-5-Incorporation-by-Reference_0.pdf

[16] http://publicaa.ansi.org/sites/apdl/Documents/Standards%20Activities/Critical%20Issues/FederalRegister_IncorporationByReference_IBR/ANSI%20Response%20IBR_041012.pdf; http://publicaa.ansi.org/sites/apdl/Documents/Standards%20Activities/Critical%20Issues/FederalRegister_OMBA119/ANSI%20Response%20OMB-A119_FINAL.pdf;

In addition, ANSI has developed an IBR portal, launched in October 2013, which provides an online tool for free, read-only access to select standards that have been incorporated by reference into federal laws and regulations. In order to protect the intellectual property rights of the groups holding these standards' copyrights, the portal has built-in security features that prevent users from printing, downloading, or transferring any of the posted standards. In addition, screenshots are disabled and the standards contain an identifying watermark. ANSI continues to add more content to its portal and currently has secured the participation of fifteen domestic and international standards developers, including ISO and IEC.

In light of the *Veeck* case, and other decisions, as well as the ongoing debate on incorporation by reference, ANSI recommends that standards developers make strategic decisions with regard to: (a) how they describe the purpose of their standards, (b) the format in which they publish their standards, (c) how they acquire copyrights in the standards; and (d) how they protect their copyright when such standards are sold or distributed. ANSI's IPRPC will continue to monitor any developments relating to copyright protection for standards.[17]

C. The U.S. Legal Landscape Regarding the Inclusion of Essential Intellectual Property in Standards

This section will address activities since ANSI's GSC-17 submission[18] involving the U.S. Federal Trade Commission ("FTC") and the U.S. Department of Justice ("DOJ") as well as recent case law and other developments relating to the inclusion of intellectual property in standards. Of particular interest in these areas are the following: (1) a joint report issued by the FTC and DOJ in 2007 relating to antitrust enforcement and intellectual property rights; (2) recent developments at U.S. antitrust enforcement agencies concerning standards-essential patents; (3) recent case law in this area; and (4) other developments.

The following sections of this report contain information that may be informative in understanding current IPR issues and do not necessarily represent the views of ANSI.

1. The FTC/DOJ Joint Report

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[17] In another copyright case of note, on March 27, 2006, a summary judgment decision was issued in a case captioned *International Code Council, Inc. v. National Fire Protection Association*, 2006 U.S. Dist. LEXIS 13783. That lawsuit was based on claims brought by one building code developer ("ICC") against another ("NFPA") alleging that NFPA's model building code, the NFPA 5000, infringed ICC's earlier building code, IBC 2000, in that the two codes used similar or identical language in many of their provisions and tables. The court denied NFPA's motion for summary judgment, finding that material issues of fact required that the matter be tried, but its analysis of some of the copyright issues may be of interest to the U.S. standards developer community. A lengthy discussion of the case is included in **ANSI's GSC-16 Contribution**, ANSI's Activities Related to IPR and Standards, at pages 17 to 26.

[18] Document GSC-17-IPR-10, available at http://www.itu.int/en/ITU-T/gsc/Pages/GSC-17/gsc17-iprwg.aspx.

On April 17, 2007, the FTC and DOJ released a long-anticipated **joint report** entitled "Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition" (the "Report") which attempts to synthesize the various views, including testimony furnished by ANSI, that were expressed during a 24-day series of hearings jointly conducted by the Agencies in 2002. The Report consists of six chapters devoted to particular IP-related practices, and states conclusions for each chapter.

Briefly, those conclusions are: *Chapter 1* (Antitrust liability for mere unilateral, unconditional refusals to license patents will not play a meaningful part in the interface between patent rights and antitrust protections although conditional refusals to license can be subject to antitrust liability if they cause competitive harm); *Chapter 2 (Ex ante* consideration of licensing terms by SDO participants may be procompetitive, likely to be analyzed under the rule of reason); *Chapter 3* (Combining complementary patents in cross licenses or patent pools is generally procompetitive); *Chapter 4* (The flexible rule of reason approach set forth in the Agencies' 1995 *Antitrust-IP Guidelines* is fundamentally sound and the Agencies will continue to use it to assess the competitive effects of a range of licensing restraints, including non-assertion clauses, grantbacks, and reach-through royalty agreements; *Chapter 5* (Regarding IP-related bundling and tying, the *Antitrust-IP Guidelines* will continue to govern the Agencies' analysis, meaning that the Agencies will focus on seller market power, competitive effects in the tied product market, and efficiency justifications proffered in favor of the bundle or tie); and *Chapter 6* (When licensing practices are alleged to extend a patent beyond its statutory term, the Agencies will apply standard antitrust analysis, including consideration of whether the patent confers market power, which generally will lead to analysis under the rule of reason).

2. Recent Developments at US Antitrust Enforcement Agencies Concerning Standards-Essential Patents[19]

Since the submission ANSI made to GSC-17, there have been a number of enforcement actions and written statements made by the two US federal antitrust enforcement agencies, the Antitrust Division of the US Department of Justice and the US Federal Trade Commission, that bear upon the interplay between interoperability standards and US antitrust law and policy. In Section 3.C.2.a. we discuss antitrust and intellectual property enforcement actions. In Section 3.C.2.b. we discuss policy statements.

[19] The FTC alleged violations of Section 5 of the Federal Trade Commission Act in four earlier matters involving standard setting. *Dell Computer Corp*., 121 F.T.C. 616 (1996); *In re Union Oil Company of California*, FTC Dkt. No. 9305 (2004); *In re Rambus*, FTC Dkt. No. 9302, Liability Opinion (2006), *rev'd, Rambus Inc. v. Federal Trade Commission*, 522 F.3d 456, 468 (D.C. Cir. 2008); *In re Negotiated Data Solutions*, LLC, Dkt. No. 051-0094 (2007). A lengthy discussion of each these matters are included in **ANSI's GSC-16 Contribution**, at pages 19 to 22. The DOJ also issued to two ANSI-accredited SDOs "Business Review Letters" relating to their patent policies. A description of the policies proposed by these developers, as well as a summary of the Business Review Letters issued to them is included in **ANSI's GSC-16 Contribution**, at pages 23 to 25.

a. <u>Antitrust Agency Enforcement Actions Concerning Standards-Essential Patents</u>

1. *FTC Google MMI Final Consent Order, July 24, 2013*
Available at *http://www.ftc.gov/enforcement/cases-and-proceedings/cases/2013/07/motorola-mobility-llc-and-google-inc-matter*

On January 3, 2013, the Federal Trade Commission ("FTC") entered into a Consent Decree with Google Inc. ("Google") and its wholly owned subsidiary Motorola Mobility LLC ("Motorola"). The decree settles allegations that Google and Motorola violated Section 5 of the Federal Trade Commission Act, 15 U.S.C. § 45, by engaging in unfair methods of competition and unfair practices relating to the licensing of standard-essential patents ("SEPs"). Specifically, the FTC alleged that Motorola, after promising to license its SEPs on FRAND terms, wrongfully sought injunctions and exclusion orders against willing licensees of those SEPs. The Proposed Consent Order was placed on the public record for thirty (30) days for comments by interested persons. On July 24, 2013 and after receiving and reviewing 25 public comments, the FTC issued the Final Decree. With the exception of the Commission removing the count from the complaint alleging that Google engaged in unfair or deceptive acts or practices, there were no major revisions to the original **Settlement Order**. The final vote approving the Decree was 2-1-1, with Commission Maureen Ohlhausen dissenting and Commissioner Josh Wright recusing himself.

2. *Letter from Michael B.G. Froman, Ambassador, United States Trade Representative, to Irving A. Williamson, Chairman, United States International Trade Commission (Aug. 3, 2013) re ITC exclusion order in Samsung-Apple ITC case*

On August 3, 2013, the United States Trade Representative, Ambassador Michael B.G. Froman, issued a **letter** disapproving the determination made by the United States International Trade Commission to issue an exclusion order and cease and desist order *In the Matter of Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers*, Investigation No. 337-TA-794. As described in further detail below, the ITC in that matter issued limited exclusion and cease and desist orders prohibiting the unlicensed importation or sale in the United States of Apple devices that infringed of U.S. Patent No. 7,706,348 owned by Samsung and declared by Samsung to be essential to ETSI's UMTS standard. The ITC's enabling statute provides that within 60 days of a final ITC determination finding a violation, the President may disapprove of that determination for "policy reasons." 19 U.S.C. § 1337(j)(2). This statutory veto authority has been delegated to the USTR. *Presidential Memorandum, Assignment of Certain Functions Under Section 337 of the Tariff Act of 1930*, 70 *Fed. Reg*. 43,251 (July 21, 2005), available at http://www.gpo.gov/fdsys/pkg/FR-2005-07-26/pdf/05-14889.pdf

In exercising its power to prevent the ITC's limited exclusion and cease and desist orders from having any force or effect, the USTR cited a joint policy statement made in January 2013 by the U.S. Department of Justice and the U.S.P.T.O, U.S. Department of Justice and U.S. Patent and

Trademark Office, Policy Statement on Remedies for Standard-Essential Patents Subject to Voluntary FRAND Commitments (Jan. 8, 2013), a statement summarized in the GSC-17 submission.

> The Policy Statement makes clear that standards, and particularly voluntary consensus standards set by standards developing organizations ("SDOs") have incorporated important technical advances that are fundamental to the interoperability of many of the products on which consumers have come to rely …. The Policy Statement expresses substantial concerns, which I strongly share, about the potential harms that can result from owners of standards-essential patents ('SEPs') who have made a voluntary commitment to offer to license SEPs on terms that are fair, reasonable, and non-discriminatory ('FRAND'), gaining undue leverage and engaging in 'patent hold-up,' i.e., asserting the patent to exclude an implementer of the standard from a market to obtain a higher price for use of the patent than would have been possible before the standard was set, when alternative technologies could have been chosen. At the same time, technology implementers also can cause potential harm by, for example, engaging in 'reverse hold-up' ('hold-out'), e.g., by constructive refusal to negotiate a FRAND license with the SEP owner or refusal to pay what has been determined to be FRAND royalty.
>
> As the Policy Statement makes clear, whether public interest considerations counsel against a particular exclusion order depends on the specific circumstances at issue. The statement also explains that, to mitigate against patent hold-up, exclusionary relief from the Commission based on FRAND-encumbered SEPs should be available based only on the relevant factors described in the Policy Statement.

Letter at 2 (footnote omitted).

The USTR went on to explain that he decided to disapprove the ITC's determination to issue limited exclusion and cease and desist orders based on his review of these various policy considerations. The USTR explained that its decision to disapprove the exclusion order "is not an endorsement or a criticism of the Commission's decision and analysis." The USTR also explained that his decision to disapprove "does not mean that the patent owner in this case is not entitled to a remedy. On the contrary, the patent owner may continue to pursue its rights through the courts." The USTR also mentioned that the ITC should review public interest and SEP and FRAND for future ITC actions involving standards, and that he will look for these in any future orders relating to SEP and RAND. There is also a footnote that discusses instances in which orders may be appropriate.

The disapproval letter issued in August 2013 was the first time the USTR had disapproved an ITC order of exclusion issued under Section 337 since 1987.

3. *The U.S. Contribution on intellectual property rights ("IPR"), specifically on injunctive/exclusionary relief, was submitted to the 17-21 June, 2014, International Telecommunication Union, Telecommunication Standards Advisory Group ("TSAG") meeting for consideration.* Available at *http://www.nist.gov/standardsgov/upload/T13-TSAG-C-0043-A1-r1-E.pdf*

Note: "This contribution was submitted after the TSAG deadline, but in accordance with Article 3.2.5 of Recommendation ITU-T A.1 "Work methods for study groups of the ITU Telecommunication Standardization Sector" TSAG is requested that it be included on the agenda for information and be considered as appropriate."

Discussion and Recommendation:
"…While consensus has been reached on transfer of licensing commitments, there are still significant differences of opinion among industry on injunctions, reasonableness and non-discrimination."

"The United States proposes that the TSB Director's ad-hoc group on IPR continue to discuss and consider the issues of reasonableness and non-discrimination and that it is premature at this time for TSAG to make or endorse recommendations with respect to these two issues. The U.S. supports the following view on injunctive/exclusionary relief and recommends that TSAG consider the following:

> Licensing terms should be determined by good faith negotiations between the Patent Holder, or its successors in interest, and potential licensees without unreasonable delays by either party.
>
> For any Patent(s) subject to a RAND undertaking, the Patent Holder, or its successors in interest, shall neither seek nor seek to enforce injunctive/exclusionary relief against a potential licensee willing to accept a license on RAND terms. One way in which a potential licensee would be considered willing to accept a license on RAND terms is if the potential licensee commits without unreasonable delay to be bound by an independent judicial or mutually agreed upon arbitral authority's determination of RAND terms.
>
> Injunctive/exclusionary relief may be available to the extent allowed under the laws of the applicable jurisdiction: (i) where money damages would not be adequate to provide RAND compensation for the infringement, or (ii) where the potential licensee refuses to accept a license on RAND terms or engages in conduct to the same effect. Disputes concerning the infringement of any Patent(s) or the RAND nature of any license terms

for such Patent(s), and any appropriate remedies including injunctive/exclusionary relief, will be determined by an independent judicial, administrative, or mutually agreed upon arbitral authority on a case-by-case basis under the laws of the applicable jurisdiction. In any such proceeding, each party may assert available relevant arguments and defenses."

In addition to the Discussion and Recommendation text above, the United States also submitted an "Explanatory Text" to assist in the interpretation of its Discussion and Recommendation text, as follows:

> The following text is provided as a companion text to help clarify the injunctive/exclusionary relief in the body of the document.
>
> Industry-led consensus-standards are widely acknowledged to be one of the engines driving the modern economy. They can increase innovation, efficiency, and consumer choice; foster public health and safety; and serve as a fundamental building block for international trade. The United States is committed to promoting innovation and economic progress, including through providing adequate and effective enforcement of intellectual property rights. Such enforcement has helped spur investments in innovation, including patented technologies that have been incorporated into industry standards, such as those developed within the International Telecommunication Union-Telecommunications (ITU-T). ITU-T is an intergovernmental standards setting organization with strong industry participation. To help ensure that standard-setting activities at ITU-T that incorporate patented technologies continue to promote innovation and competition, the United States submitted a contribution for consideration at the June 2014 meeting of the Telecommunication Standardization Advisory Group.
>
> The U.S. contribution covers four elements. These four elements neither require nor encourage portfolio licensing unless it is mutually agreeable to the patent holder and potential licensee. Parties are encouraged to resolve disputes concerning appropriate RAND compensation for Patent(s) that are practiced by the potential licensee without unreasonable delay.
>
> *First, licensing terms should be determined by good faith negotiations between the Patent Holder, or its successors in interest, and potential licensees without unreasonable delays by either party.*
>
> This element should be self-explanatory. The goal should be that the relevant parties reach mutually-agreed, negotiated outcomes on licensing terms. It is

critical that these good faith licensing negotiations be conducted without government involvement.

Second, for any Patent(s) subject to a RAND undertaking, the Patent Holder, or its successors in interest, shall neither seek nor seek to enforce injunctive/exclusionary relief against a potential licensee willing to accept a license on RAND terms.

This element reflects the U.S. view that a voluntary RAND licensing commitment precludes the seeking or issuance of injunctive/exclusionary relief where a potential licensee commits to take a license on RAND terms without unreasonable delay and is not insolvent or otherwise unable to provide RAND compensation.

To provide greater certainty to the marketplace on when an implementer of an ITU-T Recommendation will be free from a threat of being enjoined or excluded from using a patented technology subject to an ITU-T licensing commitment by the patent holder or its predecessor, the text also includes a "safe harbor." Each party may assert available relevant arguments and defenses in any safe harbor proceeding.

Third, injunctive/exclusionary relief may be available to the extent allowed under the laws of the applicable jurisdiction: (i) where a RAND royalty is not obtainable from the potential licensee, or (ii) where the potential licensee refuses to accept a license on RAND terms or engages in conduct to the same effect.

Where the parties have been unable to reach a resolution of licensing terms through good faith negotiations as provided in paragraph one and where a potential licensee of a patent essential to an ITU-T Recommendation has failed to navigate into the safe harbor described in paragraph two, the third paragraph of the contribution applies.

The first sentence of paragraph three is intended to give guidance to both patent holders subject to an ITU-T licensing commitment and potential licensees of patents essential to ITU-T Recommendations concerning those situations where injunctive/exclusionary relief may be available under the laws of the applicable jurisdiction. Injunctive/exclusionary relief may be available where a RAND royalty (whether in running royalty or lump sum form) is not obtainable from a potential licensee that is practicing the Patent(s) or a potential licensee refuses to take a license on RAND terms (or engages in conduct to the same effect). Both of these scenarios are context-specific.

Fourth, disputes concerning the infringement of any Patent(s) or the RAND nature of any license terms for such Patent(s), and any appropriate remedies including injunctive/exclusionary relief, will be determined by an independent judicial, administrative, or mutually agreed upon arbitral authority on a case-by-case basis under the laws of the applicable jurisdiction.

Where the third paragraph applies, the Patent Holder and a licensee have of necessity reached a point in negotiations where dispute resolution will be needed. In any dispute settlement proceeding, each party may assert available relevant arguments and defenses.

Results: The USG position was not adopted. The issue has been referred back to the TSB Director's Ad Hoc Committee in Intellectual Property Rights.

b. FTC and Antitrust Division Policy Statements Concerning Standards-Essential Patents

In addition to the three actions discussed above, officials at both the Antitrust Division and the FTC have issued a number of policy statements discussed in ANSI's earlier GSC-17 submission and noted below.

FTC IP Marketplace Report: In March 2011, the FTC issued a report on the operation of the patent system in the United States. In the Report, the FTC takes the view that defining RAND "based on *ex ante* value of patented technology at time standard is chosen" is "necessary for consumers to benefit from competition among technologies to be incorporated into the standard." (pp. 22-23). The FTC suggests that patent damages should be calculated using royalty base consisting of "smallest priceable component" that implements the patent (p. 25). Moreover, the FTC explained that denial of an injunction may not prevent a patent assertion entity ("PAE") from receiving the full value of the invention. The FTC also noted that courts "should give careful consideration under each of eBay's four factors to the consequences of issuing an injunction prohibiting use of a patented invention incorporated into an industry standard." And that "whether the patent owner made a RAND commitment will also be relevant to the injunction analysis". (p. 28).

c. FTC and DoJ Speeches

1. *FTC Commissioner Joshua D Wright, "SSOs, FRAND, and Antitrust – Lessons from the Economics of Incomplete Contracts" (September 12, 2013) available at* http://www.ftc.gov/speeches/wright/130912cpip.pdf

On incompleteness or ambiguity in SSO contracts

"Contractual flexibility *ex post* can be an important source of economic value. There are additional reasons parties favor less precision. For example, fear of antitrust liability imposes some costs of additional precision in the form of well-defined licensing commitments could also raise the costs of SSO participation. It is important to recognize that contractual incompleteness alone is not a reason to conclude that individual contracts are inefficient, much less indicative of market failure in the SSO process." (pp. 10-1).

"By entering into the contractual relationship with incomplete terms, the transacting parties reveal their belief that the expected gains from trade outweigh the expected costs associated with the possibility of hold-up. This suggests that contractual incompleteness and ambiguity in SSOs' IPR policies is an intended and key design feature of SSOs [Pages 19-20]. "[A]nother benefit of less precise contract terms is the flexibility they allow in quickly changing markets. For example … SSOs typically specify very little as to the meaning of "fair" or "reasonable," at least in part because there is significant heterogeneity among the firms technologies, and products within a given SSO. Other terms in IPR policies also must vary depending upon technologies." (p. 27).

On injunctive relief

"[A]vailability of injunctive relief against infringers is very likely part of the understanding among the SSO and its members. As such, the right to pursue an injunction in some circumstances was likely accounted for and incorporated into the patent owner's decision to join the SSO and contribute its technologies under F/RAND. Some commentators and some courts reason that – as a matter of *contract* – the F/RAND commitment is an agreement that damages are adequate compensation for infringement and therefore an injunction should not be granted under the Supreme Court's standard in *eBay Inc. et al. v. MercExchange, L.L.C.* No maxim of contract interpretation requires this result. Indeed, it is difficult to imagine why such an interpretation would hold in general in light of the fact that no SSO appears to uniformly disallow injunctions. To the contrary, some appear to expressly consider and reject such rules. *Ex post* interpretation of F/RAND commitments to preclude injunctive relief can deprive the parties the benefit of their bargain, undercompensate patent holders relative to *ex ante* expectations, and reduce incentives to innovate and the commercialization of innovation." (pp. 28-9).

On reverse hold-up

"[W]eakening the availability of injunctive relief for infringement – including infringement of F/RAND encumbered SEPs – may increase the probability of "reverse hold-up" and weaken any incentives implementers have to engage in good faith negotiations with the patent holder. Some argue the primary purpose of injunctive relief is to allow patent holders to threaten to exclude a product from the market, and thus enable extraction of royalties above the F/RAND rate and other significant licensing conditions from willing licensees. Such reasoning assumes the rate negotiated with the threat of an injunction has to be above the F/RAND rate. But that assumption is dubious … Thus, it is quite possible the [eliminating the availability of injunctive relief's] net effect is to exacerbate the possibility of reverse hold-up. That is, by stripping the SEP holder's right to injunctive relief, a potential licensee can delay good faith negotiation of a F/RAND license and the patent holder can be forced to accept less than fair market value for the use of the patent.

The threat of injunction can be a very important part of the bargaining process and is likely part of the benefit of the bargain conceived of by a contributing member of the SSO at the time it decided to participate in the standard. The existence of the threat does not necessarily lead to hold-up, as some feared, but rather can encourage an infringing implementer to come to the negotiation table. Reforms that suggest undermining this bargaining outcome or antitrust rules that would do so as a matter of law create a significant risk of doing more harm than good." (pp. 29-31).

Does antitrust have a role in regulating SSO contracting processes?

"[T]he antitrust laws are not well suited to govern contract disputes between private parties in light of remedies available under contract or patent law. The same concerns extend to attempts by antitrust agencies to influence SSOs' IPR policies. Caution should be exercised in both situations …The risk of imposing antitrust remedies in pure contract disputes can have harmful effects in terms of dampening incentives to participate in standard setting bodies and to commercialize innovation. These would be unfortunate consequences of policy reforms and enforcement efforts designed to improve the competitive process. They are also avoidable consequences. The sanctions available to address patent holdup and related concerns under other legal regimes are more than adequate to provide optimal deterrence against patent hold-up." (pp. 32-3).

2. *Renata Hesse, "Art of Persuasion," November 8, 2013 available at http://www.justice.gov/atr/public/speeches/301596.pdf*

On November 8, 2013, Antitrust Division Deputy Assistant Attorney General Renata Hesse, outlined the Division's engagement with several SSOs:

> The Division has been engaged for several years in sustained competition advocacy designed to help SSOs make their IP policies more procompetitive.
>
> In October 2012, I spoke at a roundtable sponsored by the Telecommunications Standards Bureau of the International Telecommunications Union (ITU) and outlined six specific proposals SSOs could implement to make their IP policies more procompetitive. The Division also has been actively engaged with the IP policy committees of the ITU, the European Telecommunications Standards Institute (ETSI), and the American National Standards Institute (ANSI) as they have discussed these and other proposals. The Division has urged these bodies to promote the ability of parties to reach negotiated licensing agreements on

> reasonable terms and generally to discourage precluding anyone from practicing the standard. In most cases, injunctions and exclusion orders (or the threat of one) do not encourage the beneficial use of a standard; they merely tip the bargaining power in favor of the patent holder. When making a F/RAND commitment, the patent owner is saying that its patent may be used by those implementing the standard in exchange for a reasonable royalty from the user. (p. 5, footnotes omitted).

Deputy Assistant Attorney General Hesse also discussed two recent US court cases that determined FRAND royalty rates, the *Microsoft v. Motorola* decision and the October 2013 *Innovatio* decision discussed in this Submission, as follows:

> In my view, both of these cases applied sensible approaches to calculating the appropriate value of RAND-encumbered patents essential to a standard. There may well be other sensible approaches, but these decisions provide important public guidance about how such RAND rates could be calculated, which should make it easier for parties (and other courts) to resolve these kinds of disputes. (p. 12, footnotes omitted)]

3. *Edith Ramirez Testimony before House Judiciary Committee, November 15, 2013* available at http://www.ftc.gov/sites/default/files/documents/public_statements/prepared-statement-federal-trade-commission-oversight-enforcement-antitrust-laws-presented/131115antitrustlawtestimony.pdf

On November 15, 2013, Federal Trade Commission Chairman Edith Ramirez testified before the United States House of Representatives Judiciary Committee's Subcommittee on Regulatory Reform, Commercial, and Antitrust Law. The committee hearing at which Chairman Ramirez testified was a regularly scheduled oversight hearing of the Committee with primary oversight authority over the Federal Trade Commission.

During her testimony, Chairman Ramirez spoke about antitrust oversight in technology markets, including the FTC's activities in the area of patents essential to implement technology standards. Chairman Ramirez noted that the FTC "has focused in particular on the problem of patent hold-up." She described patent hold-up as follows:

> The threat of patent hold-up arises from changes in the relative costs of technologies as a result of the standard setting process. Before a standard is adopted, multiple technologies, with similar attributes, may compete for selection into the standard. Once a standard is adopted, an entire industry begins to make investments tied to the standard. At that time, it may not be feasible to deviate from the standard unless all or most other participants in the

> industry agree to do so in compatible ways. Because all of these participants may face substantial switching costs in abandoning initial designs and substituting a different technology, an entire industry may become locked into practicing a standardized technology. In this situation, a firm with a patent essential to the standard (a standard essential patent or SEP) has the ability to demand royalty payments, and other favorable licensing terms, based not only on the market value of the patented invention before it was included in the standard, but also on the costs and delays of switching away from the standardized technology. In other words, as Judge Posner noted, "once a patent becomes essential to a standard, the patentee's bargaining power surges because a prospective licensee has no alternative to licensing the patent; he is at the patentee's mercy." (footnotes omitted).

Chairman Ramirez went on to identify "market based factors" that "may mitigate the risk of hold-up:

> For example, patent holders that are frequent participants in standard-setting activities may incur reputational and business costs that could be sufficiently large to deter fraudulent behavior. A patent holder may also enjoy a first-mover advantage if its technology is adopted as the standard. As a result, patent holders manufacturing products using the standardized technology "may find it more profitable to offer attractive licensing terms in order to promote the adoption of the product using the standard, increasing demand for its product rather than extracting high royalties. Finally, patent holders that have broad cross-licensing agreements with the SEP owner may be protected from hold-up. (footnotes omitted).[20]

> To further mitigate the risk of hold-up, standards development organizations:

> seek[] commitments from participants to license SEPs on RAND terms, often as a *quid pro quo* for the inclusion of the patent(s) in the standard. A RAND commitment can make it easier to adopt a standard, but the potential for hold-up remains if the RAND commitment is later disregarded, because the royalty

[20] In a footnote, Chairwoman Ramirez noted that:
Although the potential for hold-up by an SEP-holder has been the primary focus of concern, the conduct of licensees may also raise issues, such as the elimination of competition among potential licensees for the patented technology. *See, e.g.*, … 2007 FTC/DOJ Report at 52-53. In addition, so-called "reverse hold-up" can occur where a firm using the SEP delays good faith negotiation of a RAND license. *See, e.g.,* Reply Submission of the Office of Unfair Import Investigations on Remedy and the Public Interest, *In re Certain Wireless Communications Devices, Portable Music and Data Processing Devices, Computers and Components Thereof*, Inv. No. 337-TA-745, at 12 n.3 (Int'l Trade Comm'n July 18, 2012) (citation omitted) (addressing "the possibility of a reverse hold-up, whereby the patent-holder is forced to license the patents at less than fair market value").

> rate often is negotiated after the standard is adopted. Commenters have noted that a RAND commitment does not provide clear guidance on the parameters of a reasonable and nondiscriminatory license. In the event that a RAND-encumbered SEP holder and an implementer are unable to negotiate the royalty rate and other licensing terms, the SEP holder sometimes seeks an injunction from a district court, or an exclusion order from the ITC for infringement of the RAND-encumbered SEP. An injunction or exclusion order could put a substantial portion of the implementers' business at risk. As a result, the threat of an injunction or exclusion order, combined with high switching costs, could allow a patent holder to obtain unreasonable licensing terms that reflect the hold-up value of its patent despite its RAND commitment. As mentioned above, this can raise prices to consumers, distort incentives to innovate, and undermine the standard setting process. Of course, the hold-up value that the threat of an injunction or exclusion order can create depends on a number of factors, including the likelihood that litigation will be successful and an injunction will issue, relative litigation costs for the parties, as well as the cost of an injunction to the implementer. (footnotes omitted).

Chairwoman Ramirez went on to discuss two recent FTC enforcement actions involving SEPs, the *Motorola Mobility* decision (discussed in the ANSI GSC-17 submission at pp. 13-4) and the *Bosch* decision (discussed in the ANSI GSC-17 submission at pp. 12-3).

4. Maureen Ohlhausen, "A Pragmatist's Approach", December 4, 2013
Available at
http://www.ftc.gov/sites/default/files/documents/public_statements/pragmatists-approach-navigating-intersection-ip-antitrust/131204ukantitrust.pdf

On December 4, 2013, Federal Trade Commissioner Maureen Ohlhausen spoke at a conference in London. In her speech, titled "*A Pragmatist's Approach to Navigating the Intersection of IP and Antitrust,"* Commissioner Ohlhausen criticized the FTC's enforcement actions against Google and Bosch (discussed in the ANSI GSC-17 report), from which she dissented. She explained her dissents as follows:

> I took issue with, among other things, the lack of transparency and guidance that the FTC's decisions provided to patent holders and others subject to our jurisdiction. In particular, I raised concerns about the FTC enforcing Section 5 [of the FTC Act] without providing sufficient information about the relationship between that statutory provision and the antitrust laws, including the Sherman and Clayton Acts. Without such information, it is unclear what the term "unfair method of competition" means or how the Commission will use its enforcement discretion under Section 5. The inherent ambiguity in the FTC Act makes it all the more important that the agency provide meaningful limiting principles to

> application of Section 5. I proposed a set of principles this summer and have been advocating for dialogue on this point.
>
> A related point I raised in my *Bosch* and *Google* dissents is that one of the effects of those decisions was to create conflict between the FTC and other U.S. government institutions. The first such conflict arises between the FTC on the one hand and the ITC and the federal courts on the other as a result of our prohibiting holders of standard-essential patents from seeking injunctive relief before these institutions. Our decisions effectively tell holders of standard-essential patents that they cannot go to the ITC, where the only available relief is an exclusion order. I would note that I am not saying that competition policy should take a secondary position to other industrial policy concerns. Quite the contrary, the FTC has correctly advocated for a greater role for competition in U.S. industrial policy decisions. However, as I have noted, I believe we need to exhibit a certain amount of regulatory humility and recognize that we may not be the best-positioned governmental entity to act in a particular area if other government institutions have the authority and expertise to address the relevant issues.
>
> The second institutional conflict created by these two decisions is between the FTC and the DOJ. When we rely on Section 5 of the FTC Act, which only the FTC can enforce, rather than the antitrust laws, which both agencies enforce, we potentially create two different standards for patent holders, depending on which agency happens to review any alleged misconduct. One wonders how this institutional conflict is viewed by industry, as well as foreign competition authorities. (footnotes omitted).

With specific reference to the question of the availability of injunctive relief to owners of patents that had voluntarily committed to license on RAND or FRAND terms, Commissioner Ohlhausen stated:

> In both *Bosch* and *Google*, the FTC placed significant restrictions on the ability of holders of standard-essential patents to seek injunctions, which is a critical intellectual property right. In my view, the FTC did this in each case with very little, if any, evidence that the patent holder agreed to waive this right when it participated in the standard-setting process. Further, in *Bosch*, the FTC required Bosch to grant royalty-free licenses on its patents as a remedy for seeking injunctions on its potentially standard-essential patents. No matter how good the intentions may have been in these cases, my concern is that they may send a message to the market and to our foreign counterparts that we do not place a very high value on intellectual property rights. Any such perception is clearly inconsistent with the appreciation for IP rights that we typically hold in the

> United States. Thus, I would recommend that any agency or party interested in relying on these decisions proceed with caution and consider all of the Commissioner statements that were issued in connection with those decisions. (footnote omitted)

Earlier in her speech, Commissioner Ohlhausen questioned the empirical basis for concerns with patent hold-up, as follows:

> The possible competition issue the FTC and others have identified after studying the SSO process is that SEP holders can use the bargaining power they may gain after having a patent designated "standard essential" either to charge higher royalties for the SEPs or to refuse a license to competitors. Many refer to these practices as forms of "patent hold-up." That is, once an SSO has adopted a standard, implementers across the industry invest to comply with the standard, increasing their switching costs and nearly ensuring industry lock-in to the standardized technology. This lock-in theoretically enhances the bargaining ability of SEP holders, allowing them to charge more in royalties than they could have before the patent was designated essential, in an amount reflecting the increased cost for implementers to switch to another technology. The FTC for years has focused on patent hold-up as a possible competition problem …..

Commissioner Ohlhausen also questioned whether "merely seeking an injunction, without more" could violate US antitrust law:

> In keeping with my philosophy of strong protection for intellectual property rights, transparency, predictability, and fairness, and my reluctance to have government inject itself into free markets needlessly, I have spent my tenure advocating for a more detailed examination of the facts surrounding possible hold-up and for a more balanced treatment of the issue that includes analysis of the several market-based factors that could mitigate hold-up. (footnote omitted)

5. *Does the FTC Have a New IP Agenda? Remarks of Joshua D. Wright, Commissioner, Federal Trade Commission at the 2014 Milton Handler Lecture: "Antitrust in the 21st Century" The New York City Bar Association, March 11, 2014.* Available at: http://www.ftc.gov/public-statements/2014/03/does-ftc-have-new-ip-agenda-remarks-2014-milton-handler-lecture-antitrust

In his March 2014 speech, FTC Commissioner Joshua Wright observed that the:

"FTC's recent IPR-related antitrust enforcement efforts do suggest a departure from what [he] describe[s[as the *"symmetry principle"* – that is, the principle that the

> application of antitrust law to IPRs is in parity with the approach applied to real property... [a concept] prominently enshrined as the first core principle of the DOJ/FTC 1995 Guidelines on licensing IPRs."

Commissioner Wright noted the benefits of not adversely singling out patents (including standards essential patents) for exceptional antitrust treatment, including:

> … raising the rate of return antitrust offers consumers…, avoiding a misperceived contradiction between antitrust law and IPRs…, linking the antitrust analysis of IPRs to the already well developed toolkit available [for real property]…, and [addressing global concerns that] some antitrust regimes around the world [are] using the antitrust laws to further nationalistic goals at the expense of [U.S.] IPR holders… There is no doubt that certain business arrangements involving IPRs harm competition. However, as China and other emerging jurisdictions craft their own approach to applying antitrust principles to IPRs it is critically important that the message coming from the actions and words of the global antitrust community, including the FTC and DOJ, is that promoting competition and consumer welfare as understood through the lens of rigorous economic analysis is the best and most intellectually coherent approach. The symmetry principle articulates precisely such a commitment … .

Commissioner Wright referenced an "academic assault on the symmetry principle" and an FTC "pursuit [against] injunctions by SEP holders." Questioning the FTC decision in *Motorola/Google*, the Commissioner quoted the FTC majority opinion that the SEP holder "used threats of exclusion orders and injunctions to enhance its bargaining leverage … and [sought orders] before the ITC …" Noting that "no federal court has endorsed such a theory of competitive harm in a Sherman Act case and that the case exist[s] because of the unbounded nature of Section 5" [advanced by the majority but contested by the dissent], the Commissioner asserted that there is no economic evidence to support the view that:

> … seeking injunctive relief, without more, is itself anticompetitive ... [L]iterature demonstrates the ***possibility*** that an injunction … ***can*** be … potentially anticompetitive. The same literature has long recognized, in both IPR and real property context, the threat of reverse holdup.

Commissioner Wright continued that:

> the reflexive position that an SEP holder violates the antitrust laws simply by seeking an injunction, to vindicate its right, clearly departs from the symmetry principle … [and that] the extension of antitrust enforcement into contractual disputes governing IPRs is also problematic … [Even] in cases involving allegations of patent hold-up, every federal court to rule on the issue has

> required some additional conduct, such as deception in the standard-setting process, to support an antitrust violation.

Commissioner Wright concluded that:

> departures from symmetry [treating SEPs differently] creates a risk of regressing toward an antitrust regime that is overly hostile to the exercise and exchange of IPRs.

Commissioner Wright warns against reverting to a state like the "now-infamous Nine No No's" that he refers to as:

> a well-known … obsolete … *inhospitality tradition* applied against IPRs and … [which have been] rejected in favor of the symmetry approach to antitrust enforcement involving IPRs and other forms of property.

6. A Year in the Life of the Joint DOJ-PTO Policy Statement on Remedies for F/RAND Encumbered Standard-Essential Patents (Renata Hesse, Deputy Assistant Attorney General for Criminal and Civil Operations, March 25, 2014) (available at: http://www.justice.gov/atr/public/speeches/304638.pdf)

The topic of this speech by Deputy Assistant Attorney General Renata Hesse is the U.S. Department of Justice and U.S. Patent and Trademark Office Policy Statement on Remedies for Standard-Essential Patents Subject to Voluntary F/RAND Commitments. That Policy Statement was discussed in ANSI's GSC-17 Submission. In reflecting upon its policy statement, Deputy Assistant Attorney General Hesse noted:

> The division recognizes the important roles that both our antitrust laws and patent laws play in driving innovation. Our patent system drives innovation by providing exclusive rights that create incentives to engage in research and development (R&D) and the creation of new products. In addition, the patent system requires that inventors publish their inventions, enabling others to build on these previous findings: as Isaac Newton put it, each innovator "stands on the shoulders of giants" in order to reach further. Competition also drives innovation by pushing firms to be the first to market, to refine existing products or create new products, and to improve processes. As a policy matter, we want to ensure that the patent system is used "to promote the Progress of Science and useful Arts," as provided in the Constitution, and not manipulated in a manner that is harmful to innovation or competition. (p. 2).
>
> The policy statement explains that a decision-maker could find that a F/RAND-encumbered patent holder may be trying to recapture some of the enhanced

market power it would have enjoyed had it not entered into the F/RAND commitment by seeking an exclusion order to pressure an implementer to accept more onerous terms than those consistent with the F/RAND commitment. In such a case, an exclusion order can harm competition and consumers by degrading one of the key tools that SSOs use to reduce the risk of patent hold-up and spread adoption of the standard.

Therefore, the department and the PTO urged the ITC to consider their view that "the public interest may preclude the issuance of an exclusion order in cases where the infringer is acting within the scope of the patent holder's F/RAND commitment and is able, and has not refused, to license on F/RAND terms." The Department and PTO were careful to note that consideration of the ITC's public interest factors would not necessarily always counsel against the issuance of an exclusion order to address infringement of a F/RAND-encumbered SEP. The statement offers examples of when an exclusion order still may be an appropriate remedy:

- If a putative licensee refuses to pay what has been determined to be a F/RAND royalty or refuses to negotiate to determine F/RAND terms. This circumstance could include a constructive refusal to negotiate, for example insisting on terms clearly outside what reasonably could be considered F/RAND terms to evade the obligation to compensate the patent holder fairly.

- If a putative licensee is not subject to the jurisdiction of a court that could award damages.

The policy statement covers a lot of important ground, but it was not possible in that document to discuss in full detail every issue related to litigation of F/RAND-encumbered SEPs at the ITC. For example, the analysis of a "constructive refusal to negotiate"– the precise contours of which deserve further exploration – recognizes the mutual obligations of licensors and licensees to reach an agreement on F/RAND terms. The entire burden of entering into a F/RAND agreement should not rest on the licensor; licensees have an obligation to come to the table and enter into good faith negotiations regarding F/RAND terms for a license. Whether a putative licensee is engaging in a constructive refusal to negotiate a F/RAND agreement is a determination that should be made by a third-party decision maker, in this case the ITC.

The policy statement makes clear that the department and PTO strongly support the protection of IP rights and believe that patent holders who make F/RAND commitments should receive appropriate compensation for their

> contributions. Indeed, it is important that innovators continue to have incentives to invest in R&D and participate in standards-setting activities by contributing the fruits of this R&D to standards. For this reason, the statement notes that it may be appropriate for the ITC to delay the effective date of an exclusion order to allow the parties a limited period of time to enter into a F/RAND license, as it has done for other reasons in the past. We observed that the ITC's approach to cases involving F/RAND-encumbered SEPs will be important to the continued vitality of the voluntary consensus standards-setting process and thus to competitive conditions and consumers in the United States. (pp. 9-10).

3. Recent Case Law Developments Concerning Standards-Essential Patents

There have been a number of judicial and administrative decisions in the United States that involve the interplay between patents and standards since ANSI's GSC-17 submission. These decisions are summarized below.

a. *In re Innovatio IP Ventures, LLC Patent Litigation*, Memorandum Opinion and Order, Case: 1:11-cv-09308 (Northern Dist. of Illinois, July 26, 2013)[21]

Plaintiff and patent-owner Innovatio IP Ventures sued commercial users of wireless internet technology, alleging infringement of various claims of twenty-three patents.

The Defendants contended, and the District Court agreed, that Innovatio's asserted patents "[we]re all essential to the operation of the 802.11 wireless standard established by the Institute of Electrical and Electronics Engineers ("IEEE"…), and that Innovatio is therefore subject to the promises of prior owners of the patents-in-suit to license the patents on reasonable and non-discriminatory ("RAND") terms." (p. 2). "Innovatio, by contrast, contend[ed] that approximately 168 of its asserted claims [we]re not essential to implement the 802.11 standard and [we]re therefore not subject to the RAND obligation" (p. 3). The question before the court was therefore "which of the asserted claims in Innovatio's patents [we]re standard-essential and thus potentially subject to Innovatio's RAND commitment;" (p. 12).

Which party bears the burden of establishing whether the patent claims are standard-essential?

> The existence of a RAND obligation is comparable to the existence of a license … In a typical patent case, the accused infringer bears the burden of

[21] Available at http://www.essentialpatentblog.com/wp-content/uploads/sites/234/2013/07/2013.07.26-Dkt-851-Order-re-Essentiality.pdf

> demonstrating the existence of a license … Similarly here, the Defendants as the accused infringers should bear the burden of demonstrating the existence of a RAND obligation that limits their damages if they are found to infringe. The alternative would be to assume in patent litigation that every potentially standard-essential claim is subject to RAND until the patent owner demonstrates otherwise, a rule that would be overly burdensome for patent owners. [Page 13]

Whether the plaintiff "is obligated to license entire patents on RAND terms, rather than merely individual *patent claims*"

> [T]he IEEE Bylaws … explicitly provide that "[a]n Essential Patent Claim does not include … any claim other than that set forth above even if contained in the same patent as the Essential Patent Claim"… The IEEE Bylaws therefore plainly contemplate that some claims, but not others, in a particular patent may be standard-essential.[p.13]

The meaning of essential patent claim

> [T]he IEEE Bylaws' definition presents a two-part text. To prove that a patent claim is standar essential, an accursed infringer must establish by a prepnderance of the evidence that (1) at the time of the standard's adoption, the only commerically and technically feasible way to implement a particular mandatory or optional portion of the normative clauses of the standard was to infringe the patent claim; and (2) the patent claim includes, at least in part, technology that is explicitly required by or expressly set forth in the standard (*i.e.,* that the patent claim does not recite only Enabling Technology). [Page 18]

The scope of what is standard essential

> Assume that the 802.11 standard requires compliant products to perform steps A,B, and C to communicate with other devices …The parties agree that a patent cliam reciting a method with steps A, B, and C is standard-essential. The dispute is whether a patent claim reciting a method with steps A, B, C, and D is also essential … or if the addition of step D makes that claim non-standard-essention … Of course, the answer may depend on the nature of step D. If step D is an express requirement of a mandatory or optional portion of the standard, then the patent claim is essential. In addition, if step D recites Enabling Technology, then the patent claim is standard-essential. If step D is not an express requirement of a mandatory or optional portion of the standard, and does not describe Enabling Technology, then the hypothetical patent claim reciting steps A, B, C, and D is non-standard-essential." [Page 19]

Reliance on portions of the standard in infringement contentions

> Innovatio's infringement contentions include many references to various versions of the 802.11 standard to show the existence of terms of its asserted claims in the Defendants' … systems … . The Defendants contend that Innovatio has thus conceded that these claims are standard-essential, or at least that Innovatio's references to the standard are strong evidence that the clalms are standard-essential … . The court is not willing to draw that inference, because Innovatio's mere reliance on portions of the 802.11 standard in its infringement contentions for a claim does not necesarilty require that the claim be standard-essential." [Pages 19-20]

b. Ericsson et al v. D-Link Systems Inc., et al (E. Dist. Of Texas, Case No. 6:10-CV-473, August 6, 2013 Memorandum Opinion and Order)
Available at http://www.essentialpatentblog.com/wp-content/uploads/sites/234/2013/08/13.08.06-Dkt-615-Ericsson-v.-D-Link-Order-on-Post-Trial-Motions.pdf

The matter involved an Ericsson action alleging infringement of patents essential for the IEEE 802.11 standard by defendants D-Link Systems, Inc., Netgear, Inc., Belkin International, Inc., Acer, Inc. and Acer, America Corp. Gateway, Inc., Dell, Inc., Toshiba, Inc. and Intel Corp. The opinion and order relates to the scope of the RAND obligation and whether negotiations are consistent, royalty stacking, hold-up and general guidance on RAND licensing.

No duty to assert patents

The argument that Ericsson may have breached its RAND obligation to offer licenses to an unrestricted number of licensees "by not suing Intel, then not seeking damages against Intel after it intervened in the case" was rejected, on two grounds: First, the court noted that "[a]s the plaintiff, [Ericsson] is the master of its own case …. and Defendants cite no law requiring a patentee to sue all potential licensees," second, the court noted that "Ericsson offered Intel a license prior to trial" but the latter "never meaningfully engaged in licensing talks with Ericsson after Ericsson's initial offer … [and] cannot rely on its failure to negotiate to prove Ericsson's failure to make a legitimate license offer." (pp. 32-33).

Motion against the use of allegedly "non-comparable licenses

Defendants also argue the licenses [presented by the plaintiff] are incomparable because "there is no evidence that the licenses were negotiated with Ericsson's RAND obligations in mind." The court held that "[Defendants] cite no binding authority that a prior license is incomparable as a matter of law if it was not negotiated within the RAND framework ... Even if there were binding authority on the issue, Mr. Bone testified that the prior licenses were all negotiated within the framework of Ericsson's RAND obligations …. Defendants' motion for judgment as a matter of law regarding the comparability of prior licenses is DENIED" (p. 35).

Royalty base

The court found Ericsson's policy of licensing only "fully-compliant" *i.e.,* end-user products to be consistent with its RAND licensing commitment to IEEE, and noted that "[p]articipation in standard-setting organizations such as the IEEE is voluntary, and parties are free to restrict or limit their level of participation. There is nothing inherently wrong or unfair with Ericsson's practice of licensing "fully compliant" products, and they gave notice of this position in their initial letter of assurance. Further, other large companies have adopted similar policies of only licensing fully compliant products." (p. 47).

Royalty stacking and hold-up

The court rejected Defendants' argument that the jury's award failed to account for the "danger that royalty stacking would block or impede the 802.11 standard," dismissing the argument as "theoretical" (pp. 35-6), noting that "Defendants did not present any evidence of an actual royalty stack on the asserted patents" (p. 49). Similarly, it found "Defendants failed to present any evidence of *actual* hold-up."

RAND licensing

The court noted that RAND licensing:

> [C]reates a situation ripe for judicial resolution. If two parties negotiating a RAND license are unable to agree to the financial terms of an agreement, it is entirely appropriate to resolve their dispute in court ... A patent holder does not violate its RAND obligations by seeking a royalty greater than its potential licensee believes is reasonable. Similarly, a potential licensee does not violate its RAND obligations by refusing a royalty the patent holder believes is reasonable. Instead, both sides' initial offers should be viewed as the starting point in negotiations. Even if a court or jury must ultimately determine an appropriate rate, merely seeking a higher royalty than a potential licensee believes is reasonable is not a RAND violation.

The court continued:

> RAND licensing also includes an obligation to negotiate in good faith. This obligation is a two-way street. As potential licensees in a RAND negotiation, Defendants possessed an obligation to negotiate in good faith and earnestly seek an amicable royalty rate. They failed to do so. Defendants' entire argument

boils down to the fact that they believed Ericsson's initial RAND offer was too high. However, Ericsson's $0.50 offer was only the starting point in the negotiations. Defendants never meaningfully engaged Ericsson in RAND licensing negotiations after the initial offer. Further, the fact that the RAND rate was ultimately litigated in court does not make Ericsson's initial offer unreasonable." (pp. 50-51). The decision and order states that Ericsson "demonstrated the reasonableness of its offer" and did not violate i[t]s RAND obligations by seeking a $0.50 per unit royalty" a "RAND rate that did not fail to account for hold-up or royalty stacking." (p.51).

c. *In re Innovatio IP Ventures, LLC,* MDL Docket No. 2303, Case No. 11 C 9308, 2013 U.S. Dist. LEXIS 144061 September 27, 2013 (Judge Holderman – Northern District of Illinois) – Determination of RAND available at http://www.essentialpatentblog.com/wp-content/uploads/sites/234/2013/07/2013.07.26-Dkt-851-Order-re-Essentiality.pdf

In this proceeding, the court determined what a reasonable royalty is under RAND. This case was decided after the 2012 Microsoft v. Motorola case, and made reference to the early decision.

The court reviewed the approach used in the Microsoft case in which the court "relied on [12 of the 15] Georgia Pacific factors." Further, Judge Holderman referenced "Judge Robart's analysis which proceeded in three steps which provide a framework for any court attempting to determine RAND...":

> First, a court should consider the importance of the patent portfolio to the standard, considering both the proportion of all patents essential to the standard that are in the portfolio, and also the technical contribution of the patent portfolio as whole to the standard. Second, a court should consider the importance of the patent portfolio as a whole to the alleged infringer's accused products. Third, the court should examine other licenses for comparable patents to determine a RAND rate to license the patent portfolio, applying its conclusions about the importance of the portfolio to the standard and to the alleged infringer's products to determine whether a given license or set of licenses is comparable.

The court further noted that:

> Innovatio has provided the court no legally sound and factually credible method to apportion the price of the accused end-products to the value of only Innovatio's patented features. The court therefore has no choice but to look to the Manufacturers' proposed method of calculating a RAND royalty based on

> the price of a Wi-Fi chip. Accordingly, for purposes of this opinion the court will consider the price of a Wi-Fi chip to be the appropriate RAND royalty base.

The court then modified Judge Robart's methodology to fit the case at issue in three ways: first, Judge Holderman would determine only "a single RAND rate, rather than the [reasonable range]" approach of Judge Robart; second, having already determined the patents that were essential, Judge Holderman "did not adjust the RAND rate in light of pre-litigation uncertainty about the essentiality of a given patent," and third, because Judge Holderman used the Wi-Fi chip as the royalty base and "the purpose of a Wi-Fi chip is, by definition, to provide 802.11 functionality," then determining the patents' importance to the 802.11 standard "determines the importance of those patents to the Wi-Fi chip."

Judge Holderman also departed from the *Microsoft* analysis that found the Via pool payment model to be a useful royalty "indicator" and that found Motorola's patents "were not important." Judge Holderman concluded that "that Innovatio's patent portfolio is of moderate to moderate-high importance to the 802.11 standard. In that context, the Via patent pool is not an appropriate comparable license."

Moreover, while "the RAND rate must reflect intrinsic value of the invention, intrinsic value takes into account the ease of those patents' integration into the standard." Judge Holderman also recognized the importance of "incentivizing inventors to participate in the standards-setting process" and in setting the correct royalty base which "the court considered to be the price of the WiFI chip" in this case.

Applying the resulting methodology, Judge Holderman found the RAND rate to be "9.56 cents for each Wi-Fi chip used or sold by the manufacturers in the United States."

Specifically, the court calculated [royalties] using the "Top Down" analysis proposed by Defendants' economic expert, Dr. Gregory Leonard:

> Dr. Leonard adjusted the value attributable to Innovatio's patents … [noting from expert testimony] that the top 10% of all electronics patents account for 84% of the value in all electronics patents … [F]or the top 10% hypothesis, Dr. Leonard multiplied the profit margin on a Wi-Fi chip by 84% to determine the percent of that value attributable to the top 10% of all 802.11 standard-essential patents … He then multiplied that value by 23/300 (Innovatio's [standards essential] patents divided by 10% of all 802.11 standard-essential patents) to determine Innovatio's share of the value in the top 10% of 802.11 standard-essential patents.

There were 19 Innovatio SEPs remaining at the end of the proceeding, there were 3000 declared IEEE 802.11 SEP patents of which 10% was 300, and the evaluated chip price was found to be $15. The court substantially adopted Mr. Leonard's view in the following royalty calculation:

19/300 x $15 (CHIP PRICE) x 12% (profit) x 84% (value) = 9.56 cents/chip

In his opinion, Judge Holderman also discussed the issue of "hold-out" by accused infringers, which he refers to as "reverse hold-up," as follows:

> The court is not persuaded that the concern of reverse patent hold-up is relevant in this case, as there is no evidence before the court that Innovatio or its predecessors ever offered the [accused infringers] a license, or that such an offer was rejected on the ground that it was not fair or reasonable. Moreover, the court is not persuaded that reverse hold-up is a significant concern in general, as it is not unique to standard-essential patents. Attempts to enforce any patent involve the risk that the alleged infringer will choose to contest some issue in court, forcing a patent holder to engage in expensive litigation. The question of whether a license offer complies with the RAND obligation merely gives the parties one more potential issue to contest. When the parties disagree over a RAND rate, they may litigate the question, just as they may litigate any issue related to liability for infringement.
>
> The ITC's decision [in Certain Elec. Devices, Including Wireless Commc'n Devices, Portable Music and Data Processing Devices, and Tablet Computers, Inv. No. 337-TA-794, at 63 (July 5, 2013)] suggests that a RAND situation is indeed unique because an injunction is unavailable to the holder of a RAND-obligated patent. Unlike in a typical patent case, therefore, the holder of RAND-obligated patents cannot halt infringement while it pursues monetary remedies in court. As this court has previously explained, however, the question of whether a RAND obligation precludes an injunction is "muddled" and "the subject of substantial often contradictory, academic commentary." *In re Innovatio IP Ventures, LLC Patent Litig.,* 921 F. Supp. 2d 903, 916 (N.D. Ill. 2013). Even assuming that the holder of RAND-obligated patents cannot seek an injunction, however, it is plain that the injunction threat does not preclude all patent litigation. The court does not believe that the removal of the injunction threat in a RAND context would so significantly alter the balance of power in patent litigation as to put undue litigation burdens on the RAND-obligated party who, after all, voluntarily assumed the burdens of the RAND obligation.

d. In re Certain Electronic Devices, including Wireless Communication Devices, Portable Music and Data Processing Devices and Tablet Computers, July 5, 2013 opinion available at: http://www.essentialpatentblog.com/wp-content/uploads/sites/234/2013/07/337-TA-794-Comm-Opinion-Public-ANNOTATED.pdf

This is an ITC decision issued in support of an order of exclusion in an investigation that began with an administrative complaint initiated by Samsung alleging that Apple infringed a U.S. Patent declared by Samsung to be essential to ETSI's UMTS standard. The exclusion order, though not the ITC's "decision and analysis," was subsequently disapproved by the USTR (as discussed in point 2.a.2. above. The summary below relates to the ITC's legal analysis and findings that were not revisited by the letter.

Initial offer need not be FRAND

> Apple argues that "Samsung was obligated to make an *initial* offer to Apple on a specific fair and reasonable rate. The evidence on record does not support Apple's position. Apple's witness on ETSI policy and practice testified that the ETSI IPR Policy document has "no precise definition of FRAND" and that it is expected that parties arrive at a FRAND license through negotiation …. Further, there is no legal authority for Apple's argument. …. an initial offer need not be the terms of a final FRAND license because the SSO intends the final license to be accomplished through negotiation. *See Microsoft Corp. v. Motorola, Inc*. 864 F.Supp.2d 1023, 1038 (W.D. Wash, 2012) (because SSOs contemplated that RAND terms must be determined through negotiation, "it logically does not follow that initial offers must be on RAND terms")." (p. 60).

Portfolio licenses and cross licenses

> We cannot say that Samsung's offers [that attempted to negotiate a cross license of both parties' mobile telephone patent portfolios] are unreasonable. The record contains evidence of more than 30 Samsung licenses …. All of those licenses include a cross license to the licensee's portfolio. The evidence supports a conclusion that a portfolio cross-license offer is typical in the industry and reasonable.
>
> Apple has offered no evidence to suggest that such portfolio cross-licenses are atypical in the industry. The Commission notes that none of the licenses submitted in this investigation are to a single declared-essential patent, rather they are all portfolio cross licenses … In addition, the record supports a conclusion that a common industry practice is to use the end-user device as a royalty base." (p. 60).

We also note that commentators have stated that an offer to cross-license both parties' patents may be consistent with a FRAND obligation …. That approach appears consistent with the expectations of ETSI … . Moreover, the ETSI declarations Samsung Executed speficially contemplate that a FRAND license will involve "terms and conditions," not just a royalty rate. (p. 61).

The meaining of "reasonable"

A reasonable cross-license with one competitor may involve a balancing payment to Samsung while a reasonable cross-license with another competitor may involve Samsung making a balancing payment. Both types of agreements may be reasonable, depending on the two portfolios at issue and each party's respective volume of sales. (p. 61).

[S]atisfaction of the obligation flowing from a FRAND declaration is not measured by a specific offer, "be it an initial offer or an offer during a back-and-forth negotiation." *Microsoft Corp. v Motorola, Inc.* 864 F.Supp.2d 1023, 1038 (W.D. Wash. 2012). Thus, even if it were true that a FRAND *agreement* that requires Apple to pay Samsung ultimately is not reasonable…, the *offers* that Apple criticizes do not necessarily demonstrate that Samsung has violated its FRAND obligations by failing to negotiate in good faith." (p. 62, Italicized fonts in the original).

Reverse hold-up

Apple's submission to the Commission indicates that Apple has no intention of paying Samsung any royalties until after the conclusion of litigation … Apple's position illustrates the potential problem of so-called reverse patent hold-up, a concern identified in many of the pubic comments received by the Commission. In reverse patent hold-up, an implementer utilizes declared-essential technology without compensation to the patent owner under the guise that the patent owner's offers to license were not fair or reasonable. The patent owner is therefore forced to defend its rights through expensive litigation. (pp. 62-3).

e. *Apple v. Motorola* (U.S Court of Appeals for the Federal Circuit, April 25, 2014), 757 F.3d 1286 (2014). Available at http://www.essentialpatentblog.com/wp-content/uploads/sites/234/2014/04/12-1548.Opinion.4-23-2014.1.pdf

This is an appeal on Judge Posner's *Apple v. Motorola* (Northern Dist. of Illinois, June 22, 2012) decision that was reported on in pages 20-21 of ANSI's GSC-17 submission. The case involved the alleged infringement of a Motorola's U.S. patent (the "'898 patent") alleged to be an ETSI UMTS standard essential patents. The Court held as follows:

> The Supreme Court in *eBay Inc. v. MercExchange, L.L.C*. outlined the factors a district court should consider before issuing an permanent injunction, stating that "a plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.
>
> The *'898 patent* is a SEP and, thus, Motorola has agreed to license it on fair, reasonable, and non-discriminatory licensing ("FRAND") terms. The district court granted Apple's motion, stating:
>
>> I don't see how, given FRAND, I would be justified in enjoining Apple from infringing the '898 unless Apple refuses to pay a royalty that meets the FRAND requirement. By committing to license its patents on FRAND terms, Motorola committed to license the '898 to anyone willing to pay a FRAND royalty and thus implicitly acknowledged that a royalty is adequate compensation for a license to use that patent. …
>
> To the extent that the district court applied a *per se* rule that injunctions are unavailable for SEPs, it erred. While Motorola's FRAND commitments are certainly criteria relevant to its entitlement to an injunction, we see no reason to create, as some *amici* urge, a separate rule or analytical framework for addressing injunctions for FRAND-committed patents. The framework laid out by the Supreme Court in *eBay*, as interpreted by subsequent decisions of this court, provides ample strength and flexibility for addressing the unique aspects of FRAND committed patents and industry standards in general. *547 U.S. at 391-94*. A patentee subject to FRAND commitments may have difficulty establishing irreparable harm. On the other hand, an injunction may be justified where an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect. *See, e.g*., U.S. Dep't of Justice and U.S. Patent and Trademark Office, *Policy Statement on Remedies for Standard-Essential Patents Subject to Voluntary F/RAND Commitments*, at 7-8 (Jan. 8, 2013). To be clear, this does not mean that an alleged infringer's refusal to accept any license offer necessarily justifies issuing an injunction. For example, the license offered may not be on FRAND terms. In addition, the public has an interest in encouraging participation in standard-setting organizations but also in ensuring that SEPs are not overvalued. While these are important concerns, the district

> courts are more than capable of considering these factual issues when deciding whether to issue an injunction under the principles in *eBay*.
>
> Applying those principles here, we agree with the district court that Motorola is not entitled to an injunction for infringement of the *'898 patent*. Motorola's FRAND commitments, which have yielded many license agreements encompassing the *'898 patent*, strongly suggest that money damages are adequate to fully compensate Motorola for any infringement. Similarly, Motorola has not demonstrated that Apple's infringement has caused it irreparable harm. Considering the large number of industry participants that are already using the system claimed in the *'898 patent*, including competitors, Motorola has not provided any evidence that adding one more user would create such harm. Again, Motorola has agreed to add as many market participants as are willing to pay a FRAND royalty. Motorola argues that Apple has refused to accept its initial licensing offer and stalled negotiations. However, the record reflects that negotiations have been ongoing, and there is no evidence that Apple has been, for example, unilaterally refusing to agree to a deal. Consequently, we affirm the district court's grant of summary judgment that Motorola is not entitled to an injunction for infringement of the *'898 patent*.

Chief Judge Rader wrote a separate opinion dissenting in-part to the discussion of the availability of an injunction written by his colleague Judge Reyna:

> I join the court's opinion in its entirety, except for the affirmance of the district court's denial of Motorola's request for an injunction. To my eyes, the record contains sufficient evidence to create a genuine dispute of material fact on Apple's posture as an unwilling licensee whose continued infringement of the *'898 patent* caused irreparable harm. Because of the unique and intensely factual circumstances surrounding patents adopted as industry standards, I believe the district court improperly granted summary judgment. Therefore, on this narrow point, I respectfully dissent in part.
>
> At the outset, a patent adopted as a standard undoubtedly gains value by virtue of that adoption. This enhancement complicates the evaluation of the technology independent of the standardization. By the same token, the standardization decision may also simply reflect and validate the inherent value of the technology advance accomplished by the patent. Untangling these value components (at the heart of deciding whether a putative licensee was "unwilling" to license, and thus irreparable harm and other injunction factors) requires intense economic analysis of complex facts. In sum, right from the theoretical outset, this question is not likely to be susceptible to summary adjudication.

In reciting the legal principles for an injunction, this court accurately states the inquiries. Those principles supply no *per se* rule either favoring or proscribing injunctions for patents in any setting, let alone the heightened complexity of standardized technology. This court notes that a patent owner in a standard context "may have difficulty establishing irreparable harm . . . . [but] an injunction may be justified where an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect." Majority Op. 72 (citing U.S. Dep't of Justice and U.S. Patent and Trademark Office, *Policy Statement on Remedies for Standard- Essential Patents Subject to Voluntary F/RAND Commitments*, at 7–8 (Jan. 8, 2013)).

Market analysts will no doubt observe that a "hold out" (*i.e*., an unwilling licensee of an SEP seeking to avoid a license based on the value that the technological advance contributed to the prior art) is equally as likely and disruptive as a "hold up" (*i.e*., an SEP owner demanding unjustified royalties based solely on value contributed by the standardization). These same complex factual questions regarding "hold up" and "hold out" are highly relevant to an injunction request. In sum, differentiating "hold up" from "hold out" requires some factual analysis of the sources of value--the inventive advance or the standardization.

The record in this case shows evidence that Apple may have been a hold out. *See, e.g.*, *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 914 (N.D. Ill. 2012); Appellees' Br. 64–65, 72–73; Appellees' Reply Br. 26–27; J.A. 118884–86. This evidence alone would create a dispute of material fact."

….

More important, the district court made no effort to differentiate the value due to inventive contribution from the value due to standardization. Without some attention to that perhaps dispositive question, the trial court was adrift without a map, let alone a compass or GPS system. In fact, without that critical inquiry, the district court could not have properly applied the *eBay* test as it should have.

Instead of a proper injunction analysis, the district court effectively considered Motorola's FRAND commitment as dispositive by itself: "Motorola committed to license the '898 to anyone willing to pay a FRAND royalty and thus implicitly acknowledged that a royalty is adequate compensation for a license to use that patent. How could it do otherwise?" *Apple, 869 F. Supp. 2d at 914*. To the contrary, Motorola committed to offer a FRAND license, which begs the question: What is a "fair" and "reasonable" royalty? If Motorola was offering a

> fair and reasonable royalty, then Apple was likely "refus[ing] a FRAND royalty or unreasonably delay[ing] negotiations." *See* Majority Op. 72. In sum, the district court could not duck the question that it did not address; [*1334] was Motorola's FRAND offer actually FRAND? … In my opinion, the court should have allowed Motorola to prove that Apple was an unwilling licensee, which would strongly support its injunction request. (pp. 1331-4).
>
> Furthermore, the district court acknowledged the conflicting evidence about Apple's willingness to license the '898 patent: "Apple's refusal to negotiate for a license (if it did refuse—the parties offer competing accounts, unnecessary for me to resolve, of why negotiations broke down) was not a defense to a claim by Motorola for a FRAND royalty." *Apple*, 869 F. Supp. 2d at 914. Yet this scenario, adequately presented by this record, is precisely one that the court today acknowledges may justify an injunction.
>
> In my opinion, the court should have allowed Motorola to prove that Apple was an unwilling licensee, which would strongly support its injunction request. The court states that "the record reflects that negotiations have been ongoing," Majority Op. 72–73; but, as the district court even acknowledged, Motorola asserts other- wise—that Apple for years refused to negotiate while nevertheless infringing the '898 patent, *see, e.g.*, Appellees' Br. 64–65, 72–73; Appellees' Reply Br. 26–27. Motorola should have had the opportunity to prove its case that Apple's alleged unwillingness to license or even negotiate supports a showing that money damages are inadequate and that it suffered irreparable harm. The district court refused to develop the facts necessary to apply *eBay* as it should have. Consequently, the case should be remanded to develop that record. For these reasons, I respectfully dissent in part.

Judge Prost, the third judge on the three-judge appeals court panel, also wrote separately, concurring-in-part and dissenting-in-part with Judge Reyna's opinion:

> I concur in the majority's judgment that Motorola is not entitled to an injunction for infringement of the '898 patent. Majority Op. 71-73. However, I write separately to note my disagreement with the majority's suggestion that an alleged infringer's refusal to negotiate a license justifies the issuance of an injunction after a finding of infringement.
>
> As an initial matter, I agree with the majority that there is no need to create a categorical rule that a patentee can never obtain an injunction on a FRAND-committed patent. [footnote] *Id.* at 71-72. Rather, FRAND commitment should simply be factored into the consideration of the *eBay* framework. Moreover, I agree that a straightforward application of the *eBay* factors does not necessarily

mean that injunctive relief would never be available for a FRAND-committed patent. However, I disagree as to the circumstances under which an injunction might be appropriate.

Motorola argues—and the majority agrees—that an injunction might be appropriate where an alleged infringer "unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect." *Id.* Motorola insists that in the absence of the threat of an injunction, an infringer would have no incentive to negotiate a license because the worst-case scenario from a patent infringement lawsuit is that it would have to pay the same amount it would have paid earlier for a license.

I disagree that an alleged infringer's refusal to enter into a licensing agreement justifies entering an injunction against its conduct, for several reasons. First, as Apple points out, an alleged infringer is fully entitled to challenge the validity of a FRAND-committed patent before agreeing to pay a license on that patent, and so should not necessarily be punished for less than eager negotiations. Second, there are many reasons an alleged infringer might prefer to pay a FRAND license rather than undergoing extensive litigation, including litigation expenses, the possibility of paying treble damages or attorney's fees if they are found liable for willful infringement, and the risk that the fact-finder may award damages in an amount higher than the FRAND rates. Indeed, as Motorola itself pointed out, we have previously acknowledged that a trial court may award an amount of damages *greater than* a reasonable royalty if necessary "to compensate for the infringement." *Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1563 (Fed. Cir. 1983). Thus, if a trial court believes that an infringer previously engaged in bad faith negotiations, it is entitled to increase the damages to account for any harm to the patentee as a result of that behavior.

But regardless, none of these considerations alters the fact that monetary damages are likely adequate to compensate for a FRAND patentee's injuries. I see no reason, therefore, why a party's pre-litigation conduct in license negotiations should affect the availability of injunctive relief.

Instead, an 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. For example, if an alleged infringer were judgment-proof, a damages award would likely be an inadequate remedy. Or, if a defendant refused to pay a court-ordered damages award after being found to infringe a valid FRAND patent, a court might be justified in including an injunction as part of an award of sanctions.

> But regardless, these circumstances are not present in this case, and I agree with the district court that under the facts here, Motorola cannot show either irreparable harm or inadequacy of damages. I would therefore affirm the district court's denial of Motorola's claim for injunctive relief for the '898 patent.[22]

f. In re Certain Wireless Devices with 3G And/Or 4G Capabilities and Components Thereof Inv. 338-TA-868, Initial Determination on Violations of Section 337 and Recommended Determination on Remedy and Bond, June 13, 2014
Available at http://www.essentialpatentblog.com/wp-content/uploads/sites/234/2014/07/2014.06.26-Initial-Determination-on-Violation-PUBLIC-337-TA-868smMRC.pdf

In this matter, Interdigital Communications Inc. [IDC] and related entities filed an ITC complaint, based on patent infringement under 19 US Code 1337, against Samsung Electronics Co, Ltd (of Korea), Nokia Corporation (of Finland), ZTE Inc. (of Texas), and Huawei Technologies Corp (of China) [and related entities]. Samsung and Huawei were dropped from the investigation after settlements.

Administrative Law Judge [ALJ] Essex reviewed three patents in the 3G and/or 4G wireless communication field, finding no patent infringement Section 337 violation. After construing the claims, the ALJ found that there was no infringement of valid claims. Accordingly, the ALJ determined that "the patents were not essential to the 3G or 4G LTE standards and IDC's FRAND obligations are not triggered."

Although no infringement was found, the ALJ included a discussion of FRAND in the Recommended Determination that was sent to the Commission for review:

> Nevertheless, should the Commission find that the Respondents do infringe the asserted patents and that the asserted patents are essential ... the ALJ prescribes the following analysis.
>
> The ALJ noted that Interdigital submitted an ETSI Licensing Declaration, but further noted that ETSI sets forth "steps to be taken if a party … believes that a member that has signed the [ETSI] agreement is refusing to grant a FRAND license ...". The procedure includes steps by which the ETSI Directorate General

[22] In a footnote, Judge Prost challenged the view that Judge Posner had applied a *per se* rule prohibiting injunctions for patents subject to F/RAND licensing commitments, writing:

> For what it's worth, I would note that the district court *did not* apply a *per se* rule that injunctions are unavailable for SEPs. Rather, Judge Posner expressly noted that injunctive relief might have been appropriate if Apple had "refuse[d] to pay a royalty that meets the FRAND requirement." J.A. 140. Thus, the majority need not have suggested that the district court erred insofar as it applied such a categorical rule. *See* Majority Op. 71.

"writes to the IPR owner for an explanation ..." to resolve the matter. The judge determined that Respondents did not follow these steps.

ALJ Essex also commented that:

> using patented technology prior to negotiating with Interdigital for a license is a violation of the ETSI Rules ... While ... ETSI Rules require the IPR holder to be prepared to offer a license, it also requires the companies that would use the technology to seek a license as well ... .
>
> The ALJ cited ETSI Frequently Asked Questions ("FAQs") that relate to these topics.

The ALJ further found that "Respondents arguments that IDC refused to negotiate in good faith is baseless." The judge considered *holdout* by implementers and *holdup* by SEP holders, noting that

> in looking at the interests of the parties, *holding out* meets the interests of the respondents, but if complainants should *hold up* the respondents, they will suffer losses along with the licensees .... While the possibility ... of exclusion order may benefit IDC in negotiating a license, there are hundreds of other economic factors that go into [royalty determination] … . While there might be a hypothetical risk of holdup, we have evidence that it is not a threat in this case or in this industry …

Judge Essex continued:

> The evidence presented does not support Respondents view that IDC violated a FRAND obligation by filing this complaint at the IDC ... IDC's obligation has been fulfilled ...
>
> The [USPTO and DOJ January 2013 F/RAND Policy] Statement does not take into account the realities of the agreements that are used within the framework created by ETSI … . In this case, there is no evidence that the Commission ought to go beyond the statue, and assume that the remedy of exclusion order should be removed … . For the Commission to adopt a policy that would favor a speculative and unproven position held by other government agencies, without proof that the harm they considered exists or that the risk of such harm was so great that the Commission should violate its statutory duty would damage the Commission's reputation for integrity, and violate its duties under the law.

Judge Essex further concluded that:

> the threat of exclusion order does not result in license costs in excess of FRAND rate ... . There is no evidence that the IPR owner may obtain remuneration beyond the value of the IP, because it is a standard ... .

The judge questioned a

> one-sided administration of the law ... favoring a speculative position ... without proof that the harm they considered exists ... or was so great that the Commission should violate its statutory duty.

The ALJ rendered a Recommended Determination that:

> if the Commission finds a violation, then it should issue a Limited Exclusion Order[23] and narrowly tailor it as recommended by Respondents and to delay its effects by 6 months as recommended by staff.

After the decision, four public interest statements, that discuss the FRAND issue, were submitted. One statement has been submitted by Ericsson, one by Innovation Alliance, one by Senator Casey (of Pennsylvania where IDC is located), and one by Microsoft (who has acquired part of Nokia).

g. RealTek Semiconductor Corporation v. LSI Corporation, Jury Verdict Case 5-12-cv-03451 (N. Dist. Cal., June 16, 2014) (http://www.essentialpatentblog.com/wp-content/uploads/sites/234/2014/06/2014.06.16-362-Order-denying-314-Motion-for-JMOL.pdf)

LSI owns two patents it claimed were essential to implement the IEEE's 802.11 standard, commonly known as Wi-Fi. Both patents were subject to letters of assurance LSI filed with the IEEE in which it agreed to license the patents on RAND terms. As described by the US District Court judge hearing Realtek's case against LSI, in March 2012, LSI wrote to Realtek:

> … and asserted that Realtek products, as incorporated into certain third-party devices, infringe, inter alia, the '958 and '867 Patents. LSI's March letter did not offer a license, but demanded Realtek to immediately cease and desist from its allegedly infringing activities. Less than one week later, on March 12, 2012, LSI filed a complaint with the ITC naming Realtek and others as respondents and alleging, inter alia, that Realtek infringed the '958 and '867 Patents. LSI sought: (1) a "limited exclusion order" excluding the accused products from entry into

[23] The ITC can issue General Exclusion Orders which cover all products from any company. Limited Exclusion Orders typically apply to identified companies.

the United States, and (2) "permanent cease-and-desist orders" barring Realtek from, inter alia, importing the accused products into the United States. On May 24, 2012, Realtek requested that LSI make the '958 and '867 Patents available for a reasonable and non-discriminatory ("RAND") license pursuant to defendant's designation of these patents as essential to the IEEE 802.11 standard and their promise in the Letters of Assurance.

Realtek subsequently sued LSI, asserting that LSI had breached its commitment to grant licenses on FRAND terms by filing a complaint in the ITC and seeking a declaration of the RAND licensing terms for the two patents. The District Court granted partial summary judgment in favor of Realtek and granted a conditional preliminary injunction preventing LSI from enforcing any exclusion order issued by the ITC. Subsequently, a jury awarded Realtek 3.825 million dollars in damages, based on the amount the jury determined that Realtek had spent defending the ITC action LSI initiated. The jury determined a combined RAND royalty of .19% of the price of Realtek's products for the two patents.

Following the jury's decision, Realtek and LSI each filed motions for judgment as a matter of law. LSI sought a reduction in the amount of the jury's award based on Realtek's alleged failure to mitigate its damages. The court rejected that argument, finding that Realtek had acted reasonably in, for example, negotiating for a discount from the law firm it hired to defend the ITC case.

Realtek moved for judgment as a matter of law regarding the jury's royalty determination. The district court rejected that challenge as well, ruling that the fact that the damages expert that testified for LSI could not establish with precision the total number of patents essential to the 802.11 standard that LSI owned did not make the expert's testimony so unreliable that the jury could not use it as a basis for its decision.

h. Commonwealth Scientific and Industrial Research Organisation v. Cisco Systems, Inc., Case No. 6:11-cv-343 (E. Dist. Texas Tyler, July 23, 2014) (http://www.essentialpatentblog.com/wp-content/uploads/sites/234/2014/07/CSIRO-v.-Cisco.pdf)

Background

In July 2011, the Commonwealth Scientific and Industrial Research Organisation ("CSIRO") brought suit against Cisco Systems, Inc. asserting infringement upon its '069 Patent, which "discloses a wireless LAN incorporating forward error correction, frequency-domain interleaving, and multi-carrier modulation, among other techniques to solve challenges to indoor wireless networking known as the 'multipath' problem." IEEE ratified both 802.11a and 802.11g which embody the technology of the '069 Patent. (p.2) CSIRO made a RAND commitment to the IEEE only for 802.11a but not for subsequent revisions. Because CSIRO did not make a RAND commitment for subsequent amendments to the 802.11 standard, which enjoyed wider marketplace adoption than did 802.11a, the percentage of products accused of infringement that were subject to CSIRO's RAND commitment were, according to the judge, "incredibly small". (p. 26). Instead, CSIRO developed a Voluntary Licensing Program that offered licenses to the '069 Patent under "a flat-fee royalty, charged per end product unit sold." (p. 16).

CSIRO filed its case in the Eastern District of Texas; Judge Leonard Davis presided. In March 2013, the parties stipulated that infringement and validity would not be argued or contested and that the case would be tried solely on the issue of damages. The parties subsequently consented to a bench trial, which began on February 3, 2014.

Arguments

Each party argued a particular damages model. CSIRO proposed a reasonable royalty of approximately $30.1 million based on the application of a flat fee to each end product unit, arguing that Cisco's end products—wireless network interface cards, routers, access points, and other devices—constituted the smallest saleable patent practicing unit. CSIRO further argued that the '069 Patent provided the only improved benefits between revisions of the 802.11 standard and should be valued accordingly. Cisco proposed a reasonable royalty of no more than $1.1 million based on a percentage of wireless LAN chip prices for each chip sold, with the royalty rates capped by the rates previously offered by CSIRO to Radiata Communications, an organization that CSIRO and others had formed to commercialize their technology that was subsequently acquired by Cisco. Cisco also claimed affirmative defenses of legal and equitable estoppel, arguing that CSIRO's RAND obligation should limit damages to a level based on licenses provided to Radiata.

Decision

In his July 23, 2014, decision, Judge Davis rejected Cisco's affirmative defenses of legal and equitable estoppel, holding that although CSIRO was bound by a RAND obligation for products practicing revision "a" of the 802.11 standard, it was not bound by a RAND obligation for later revisions. (p. 8).

Judge Davis also rejected both parties' damages calculations. He determined that CSIRO's valuation model made it "impossible to determine where the value of the technology lies." Judge Davis rejected the testimony of CSIRO's expert, Professor Malackowski, because of his "failure to quantify and fully consider differences not attributable to the '069 Patent when comparing 802.11a, 802.11g, 802.11ab, and 802.11ag products to 802.11b products." (p. 15). With respect to Cisco's valuation, Judge Davis determined that Cisco's reliance on the licenses provided to Radiata was misplaced; due to the unique relationship at the time between CSIRO and Radiata, the licenses would not be comparable to a hypothetical arm's-length negotiation between CSIRO and Cisco. Judge Davis also determined that it would be inappropriate to use chip prices as the royalty base because the patent was not directed solely to the chip level and widespread infringement depressed chip prices.

> The numerous shortfalls in Mr. Malackowski's report render CSIRO's damages model unreliable for purposes of calculating damages here. There are methodological problems with the profit premium analysis that form the basis of the report, including inadequate sample size and vast initial ranges. Compounding these methodological errors are analytical problems, most especially the failure to adequately apportion, in a quantifiable manner, differences between the accused and unaccused products based on factors not attributable to the '069 Patent. Accordingly, the Court attributes little weight to the damages model proposed by CSIRO in this case." (p. 17).
>
> Unfortunately, as with Mr. Malackowski's report and CSIRO's damages model, Mr. Bakewell's report and Cisco's model is informative, but ultimately of limited use to the Court in determining the appropriate damages here. Cisco's model essentially adopts the royalty rates established in the TLA entered by CSIRO and Radiata in 1998, however Cisco's reliance on the TLA as a reasonable rate that CSIRO and Cisco would have negotiated in 2002 and 2003 is misplaced. (p. 20).
>
> Another obstacle to relying on the TLA rates is the timing of the agreement. The TLA was executed in 1998. PTX-10 at 2. The hypothetical negotiations in this case took place in 2002 and 2003. Drastic changes took place in the wireless marketplace during that time period. Commercial viability of the technology escalated sharply as the 802.11a revision was adopted in September 1999, over eighteen months after the TLA was signed, and received a greater boost when the 802.11g revision was ratified in June 2003. The first commercially successful consumer wireless LAN access points and NICs were introduced in this interim. CSIRO and Cisco hypothetically negotiated in a very different wireless landscape than existed when the TLA was adopted in 1998. "This is not an indication that the value of the '069 Patent increased solely because it was included in the standard. .Rather, the wireless marketplace as a whole benefited from the adoption of standards." (p. 21).
>
> [T]he primary problem with Cisco's damages model is the fact that it bases royalties on chip prices. CSIRO did not invent a wireless chip. Although it is largely undisputed that the inventive aspect of the '069 Patent is carried out in the PHY layer of the wireless chip, the chip itself is not the invention. The '069 Patent is a combination of techniques that largely solved the multipath problem for indoor wireless data communication. The benefit of the patent lies in the idea, not in the small amount of silicon that happens to be where that idea is physically implemented. Compounding this problem is the depression of chip

> prices in the damages period resulting from rampant infringement which occurred in the wireless industry. … Prior to 2008, outside of the Radiata TLA, no company in the industry sought a license from CSIRO to the ’069 Patent and CSIRO received no royalties whatsoever for that technology. … It is simply illogical to attempt to value the contributions of the ’069 Patent based on wireless chip prices that were artificially deflated because of pervasive infringement. Basing a royalty solely on chip price is like valuing a copyrighted book based only on the costs of the binding, paper, and ink needed to actually produce the physical product. While such a calculation captures the cost of the physical product, it provides no indication of its actual value … . As with CSIRO’s own model, the deficiencies in Cisco’s damages model renders it unreliable for the purpose of calculating damages here. (p. 22).

After rejecting both parties’ damages calculations, Judge Davis calculated damages based on hypothetical negotiations, with royalty rates offered by CSIRO’s Voluntary Licensing Program as the upper bound and an informal offer from Cisco to CSIRO as the lower bound. The Court then considered the Georgia Pacific factors, which prompted offsetting upward and downward adjustments.

> Having considered all the evidence and for the reasons stated herein, a reasonable royalty based on hypothetical negotiations between CSIRO and Cisco would have resulted in a flat rate assessed per infringing end product unit sold with an increasing discount based on total volume of products sold. Applying this to the undisputed royalty base, the Court awards damages to CSIRO for Cisco’s stipulated infringement of the ’069 Patent in the amount of $16,243,067. Although CSIRO does have a RAND obligation to Cisco regarding 802.11a products, that obligation does not change the calculation of the damages awarded. Cisco is entitled to no further relief based on its affirmative defenses. (p. 31).

4. <u>Other</u>

a. <u>National Academy of Sciences Report, "Patent Challenges for Standard-Setting in the Global Economy: Lessons from Information and Communications Technology." The report is available at:</u> http://www.nap.edu/catalog/18510/patent-challenges-for-standardsetting-in-the-global-economy-lessons-from

In response to a request from the US Patent and Trademark Office, the private, non-profit National Academy of Sciences oversaw the publication, on October 15, 2013, of a Report relating to patent challenges for standards setting in the global economy. The Report was prepared by a selected group of six professors and three industry participants, including several members of the IPRPC. The list of participants is available **here**. The committee's recommendations represent a consensus of views, but not every member agrees with every formulation.

The Report includes chapters covering "A COMPARISON OF SSO POLICIES AND PRACTICES", "KEY ISSUES FOR SSOS IN SEP LICENSING", "SEP DISCLOSURE AND INFORMATION TRANSPARENCY", "TRANSFERS OF PATENTS WITH LICENSING COMMITMENTS", "INJUNCTIVE RELIEF FOR SEPS SUBJECT TO FRAND", "PATENT OFFICE-SSO COOPERATION", and "IPR STANDARDS AND EMERGING ECONOMIES."

As the Report summarizes, "having studied the experience of the dozen standard-setting organizations ("SSOs") examined in a commissioned paper, the positions of government regulators, the evolving case law in areas of legal uncertainty and contention, and economic theory, the committee recognizes the diversity of stakeholder interests and their variation from organization to organization. In some cases, the committee also recommends actions by government authorities supportive of these principles … The committee's recommendations represent a consensus of views, but not every member agrees with every formulation.

The report begins with a set of recommendations, which are summarized below:

Interpretation of FRAND

A FRAND licensing commitment represents more than the patent owner offering a license on terms of its own choice. Both the SEP holder and prospective licensees are expected to negotiate in good faith towards a license on reasonable terms and conditions that reflect the economic value of the patented technology.

- SSOs should be more explicit in their IPR policies regarding their understanding of and expectations about FRAND licensing commitments, including guidance regarding multiple royalty demands that could be an excessively large share of product value when many patents are necessary.
- SSOs should include in their policies statements that implementers and the consumers of their products and services are the intended beneficiaries of licensing commitments made by SSO participants.
- SSOs should clarify that prospective licensees may request a license to some or all FRAND-encumbered SEPs owned or controlled by a patent holder. Licensors may not tie the FRAND commitment and SEPs availability to a demand that a licensee accept a package or portfolio license that includes non-SEPs or SEPs for unrelated standards. Nor may the licensors tie these factors to a requirement that the licensee agree to license back unrelated SEPs or non-SEPs.

- SSOs should clarify that a holder of FRAND-encumbered SEPs may require a licensee to grant a license in return under FRAND terms to the SEPs it owns or controls covering the same standard or, as specified by the SSO, related standards.

Patent disclosures

Many aspects of disclosure are subject to tradeoffs for both SSOs and member companies. Although more transparency can reduce uncertainty and legal exposure, disclosures can also entail significant effort and compliance costs. Nevertheless, the report recommends that:

- SSOs that do not have a policy requiring FRAND licensing commitments from all participants should have a disclosure element as part of their IPR policy.
- SSOs with disclosure policies should articulate their objectives and define the preferred timing and specificity of disclosures.
- SSOs should make disclosure information available to the public.
- SSOs should consider measures to increase the quality and accuracy of disclosure data, for example, by including updating requirements.

Transfer of patents with licensing commitments

Changes in ownership of patents, including SEPs, are increasingly common through both market sales and bankruptcy proceedings. Statutes and judicial rulings provide only partial guidance regarding the obligations and rights of transferors and transferees along an extended chain of transactions. The report agrees with U.S. and European competition authorities that a FRAND licensing commitment, once made by a SEP owner, should travel with the patent when it is transferred.

- SSOs should have policies by which successors in interest are bound to whatever licensing commitment the SEP owner made to the SSO and this obligation should cascade through succeeding transfers.
- Legislation, case law, or other legal mechanisms should tie licensing commitments to FRAND-encumbered patents needed to implement SSO standards.
- Legislation or regulation should require public recordation with the USPTO of all patent transfers, and the record should identify the real party in interest.
- SSOs should develop guidelines to ensure that the licensing assurances made to them remain with the patent in bankruptcy proceedings and support legislation, if necessary, to that end.
- National competition authorities and negotiators should seek to reduce inconsistencies across national jurisdictions in patent-transfer issues, including in bankruptcy processes.

Injunctive relief for SEPs subject to FRAND

A FRAND commitment should limit a licensor's ability to seek injunctive relief, including a U.S. International Trade Commission exclusion order. To help avoid or resolve disputes and prevent anti-competitive conduct but still ensure reasonable compensation to SEP holders whose patents are infringed, the report recommends that SSOs should clarify their policies regarding the availability of injunctions for FRAND-encumbered SEPs to reflect the following principles:

- Injunctive relief conflicts with a commitment to license SEPs on FRAND terms and injunctions should be rare in these cases.
- Injunctive relief may be appropriate when a prospective licensee refuses to participate in or comply with the outcome of an independent adjudication of FRAND licensing terms and conditions.
- Injunctive relief may be appropriate when a SEP holder has no other recourse to obtain compensation.

A majority of study committee members further recommended that:

- SSOs should clarify that disputes over proposed FRAND terms and conditions should be adjudicated at a court, agency, arbitration or other tribunal that can assess the economic value of SEPs and award monetary compensation.
- SSOs should also clarify that before a SEP holder can seek injunctive relief, disputes over proposed FRAND terms and conditions should be adjudicated at a court, agency, arbitration, or other tribunal that allows either party to raise any related claims and defenses (such as validity, enforceability and non-infringement).[24]

The National Academies study also advocated greater information sharing between leading US standards development organizations and the US Patent and Trademark Organization, along the lines of relationships that exist between the European Patent Office and leading European and International standards development organizations such as the ITU, ETSI, and the IEEE Standards Association.

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[24] A minority of committee members endorsed the following alternative recommendations:

Courts, agencies, arbitration bodies or other tribunals (including the USITC) that consider patent essentiality, FRAND determination, or public interest factors should be presented with the facts and render injunctive relief decisions based on existing law, such as the *eBay* decision and/or ITC Section 337.

SSOs should clarify that a SEP owner that has made an offer and offered to negotiate, with a prospective licensee, a license that will embody FRAND terms should be allowed to include injunctive relief in its pleadings when a FRAND dispute is brought to a court, agency, arbitration, or other tribunal that can consider equities, party conduct, reciprocity, and FRAND factors (including FRAND rates and terms).

5. Annex: Court Cases and Speeches Given Post Script

The included references below relate to events that occurred after this report was completed and ANSI will likely include a discussion of the references in its next GSC contribution.

- Assistant Attorney General for Antitrust, Bill Baer, International Antitrust Enforcement, Progress Made; Work to be Done (September 12, 2004) available at: http://www.justice.gov/atr/public/speeches/308592.pdf.

- FTC Commissioner Maureen Ohlhausen, Antitrust Enforcement in China (September 16, 2014) available at: http://www.ftc.gov/system/files/documents/public_statements/582501/140915gcrlive.pdf

- *ChriMar Systems Inc. v. Cisco Inc.* (N.D. Cal., October 29, 2014) available at: http://www.essentialpatentblog.com/wp-content/uploads/sites/234/2014/11/2014.10.29-240-Memorandum-and-Order-Granting-Judgment-on-the-Pleadings.pdf

- *Ericsson Inc. v. D-Link Systems Inc*. (Court of Appeals for the Federal Circuit, December 4, 2014) available at: http://www.essentialpatentblog.com/wp-content/uploads/sites/234/2014/12/13-1625.Opinion.12-2-2014.1.pdf

- *Standards-Essential Patents and Licensing*: An Antitrust Enforcement Perspective, Address by FTC Chairwoman Edith Ramirez. 8th Annual Global Antitrust Enforcement Symposium, Georgetown University Law Center, September 10, 2014 available at: http://www.ftc.gov/system/files/documents/public_statements/582451/140915georgetownlaw.pdf

D. SUMMARY

The potential abuse, whether by a patent holder or implementer, of a standards-setting process in order to gain an unfair competitive advantage ought not be condoned. Many of the due process-based procedural requirements reflected in the ANSI procedural requirements for the development of American National Standards provide certain safeguards in the process in order to minimize the risk of a party disrupting the effectiveness of ANSI standards.

With respect to the inclusion of patented technology in standards, there are incentives built into the system that cause it to be effective in encouraging the licensing of essential patented inventions owned by participants. On the patent holder side, a standard or its development may be discontinued, which may impact patents holders as well as others. With respect to patent holders and implementers, as reflected in the prior sections, legal action (before courts and agencies) is available for parties to seek redress if the patent holder does not comply with its licensing assurances, on the one hand, or if the implementer does not respond appropriately when the patent holder acts in compliance with its RAND obligations.

The ANSI Patent Policy has proven over time to be an effective means of addressing the incorporation of patented technology into standards. And, as noted, the ANSI IPRPC continues to monitor the effectiveness of that policy and its responsiveness to current needs.

ANSI thanks the hosts for inviting ANSI to participate in the GSC-18 and for the opportunity to comment and contribute to the meeting’s results.