



DEPARTMENT OF JUSTICE

A Year in the Life of the Joint DOJ-PTO Policy Statement on Remedies for F/RAND Encumbered Standards-Essential Patents

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I. Introduction

Let me start by thanking GCR for inviting me to speak today at this conference on Intellectual Property (IP) and Antitrust. The topics you will be discussing today are of significant interest to the Antitrust Division. We have been working for a long time in both our competition advocacy and civil enforcement roles to promote competition and sound antitrust policy regarding licensing disputes involving patents that are essential to a standard and that the patent owner, or its predecessor, committed to license on fair, reasonable and non-discriminatory – or F/RAND – terms for uses implementing a standard as part of the standard- setting process. I will refer to these as F/RAND-encumbered SEPs, the SEP standing for “standards-essential patent.” There may be other patents that are technically or commercially essential to a standard, which the patent owner has not committed to license; these have not been the focus of our work, and are not what I mean when I talk about F/RAND-encumbered SEPs.

To begin today’s dialogue, I will discuss remedies at the U.S. International Trade Commission (ITC) for infringement of F/RAND-encumbered SEPs. The Department of Justice and the U.S. Patent and Trademark Office – under the leadership of Dave Kappos – issued a joint policy statement on this issue in January 2013.¹ This policy statement is an important part of the division’s competition advocacy efforts relating to F/RAND-encumbered SEPs.

In August 2013, the U.S. Trade Representative (USTR) relied on the policy statement when disapproving the ITC exclusion order against certain Apple Inc. products.² Exclusionary

¹ U.S. DEP’T OF JUSTICE & U.S. PATENT & TRADEMARK OFFICE, POLICY STATEMENT ON REMEDIES FOR STANDARDS-ESSENTIAL PATENT SUBJECT TO VOLUNTARY F/RAND COMMITMENTS (2013), <http://www.justice.gov/atr/public/guidelines/290994.pdf> [Hereinafter Joint DOJ-PTO Policy Statement]. The ITC conducts investigations into allegations of certain unfair practices in import trade under Section 337 of the Tariff Act of 1930. The importation of products that infringe certain statutory IP rights may be an “unlawful practice” under Section 337. 19 U.S.C. § 1337.

² Letter from Michael B.G. Froman, Ambassador, U.S. Trade Rep., to Irving A. Williamson, Chairman, U.S. Int’l Trade Comm’n (Aug. 3, 2013), available at http://www.ustr.gov/sites/default/files/08032013%20Letter_1.PDF

relief in that case had been based on a finding that the Apple iPhones and iPad at issue infringed an SEP that Samsung Electronics Co. had agreed to license on F/RAND terms to those implementing a cellular standard adopted by the European Telecommunications Standards Institute (ETSI).³ Today, I will discuss the events leading up to the joint policy statement, the policy statement's approach to F/RAND-encumbered SEPs, and the decision by the USTR.

II. Background

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.

Some historical background is helpful to understand the significance of the policy statement, which was informed by over a decade of thinking by the division, the Federal Trade Commission (FTC), and the PTO about standards-setting activities and the IP policies of

[Hereinafter USTR Disapproval Letter]. Under the ITC's enabling statute, the President is afforded veto power over exclusion orders. This statute provides that within 60 days of a final determination by the ITC finding a violation, the President may disapprove of that determination for “policy reasons.” 19 U.S.C. §1337(j)(2). The veto authority under the statute 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).

³ Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers, Inv. No 337-TA-794, 2013 WL 2453722 (Jun. 4, 2013).

standards-setting organizations (SSOs). In 2002, the division and the FTC held a series of public hearings entitled, “Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy.”⁴ These hearings included panels on standards-setting practices and their impact on competition and innovation. A number of experts from the PTO participated on various panels at these hearings.

In 2007, the Department and the FTC issued a joint report based on the hearings, entitled, “Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition.”⁵ This report included a chapter on standards-setting activities, which reached several important conclusions:

- Standards have a number of procompetitive benefits, including the potential to increase innovation and consumer choice and enhance public health and safety.
- Standard setting also can pose a risk of anticompetitive harm via patent holdup when patents are incorporated into a standard. Before a standard is set, multiple technologies may vie to be included. Once a technology is incorporated into a standard, however, switching may become difficult, and a patent holder can extract higher royalties or other more onerous licensing terms than would have been possible before the standard was set.
- Many SSOs have implemented IP policies aimed at preventing this type of hold-up by requiring those who choose to participate in the process to disclose patents that may be necessary to implement a standard and asking participants to commit to license essential patents on F/RAND terms or inform other participants that they will not license on such terms.

⁴ *Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy Hearings*, U.S. Dep’t of Justice, Antitrust Division & Fed. Trade Comm’n, (2002). Information and materials related to these hearings is available on the Agencies’ websites at <http://www.justice.gov/atr/events/hearings/comphearing/index.html> and <http://www.ftc.gov/news-events/events-calendar/2002/02/competition-ip-law-policy-knowledge-based-economy-hearings>.

⁵ U.S. DEP’T OF JUSTICE & FED. TRADE COMM’N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION (2007), available at <http://www.justice.gov/atr/public/hearings/ip/222655.htm>.

In 2006 and 2007, the division issued business review letters analyzing efforts by two SSOs to address the threat of patent hold-up.⁶ The division's 2006 business review letter to the VMEbus International Trade Association (VITA), an organization that sets standards for VMEbus computer architecture, analyzed a proposed patent policy that required members of standards-setting working groups to state the maximum royalty rates and the most restrictive additional terms they would demand for any patent claims that were essential to implementing the future standard. The division characterized the VITA policy as "an attempt to preserve competition and thereby to avoid unreasonable patent licensing terms that might threaten the success of future standards and to avoid disputes over licensing terms that can delay adoption and implementation after standards are set." The letter concluded that the division had no present intention to take enforcement action against implementation of the policy because the VITA policy "is a sensible effort . . . to address a problem that is created by the standard-setting process itself" and that the policy "should preserve, not restrict, competition among patent holders."⁷

The division's 2007 letter to another SSO, the Institute of Electrical and Electronics Engineers (IEEE), analyzed a similar patent policy, which gave patent holders the *option* to disclose publicly and commit to the most restrictive licensing terms, including maximum royalty rates, they would offer for patents found essential to implement the standard.⁸ IEEE's proposed

⁶ Individuals who are concerned about the legality of future business activities under the antitrust laws can formally request that the Department issue a statement of its present enforcement intentions. See 28 C.F.R. § 50.6. Business review letters allow the Department to take these general principles and provide prospective guidance to specific proposals. See *Business Reviews*, Antitrust Div., U.S. Dep't of Justice, <http://www.justice.gov/atr/public/busreview/index.html>.

⁷ Letter from Thomas O. Barnett, Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, to Robert A. Skitol, Partner, Drinker, Biddle & Reath, LLP (Oct. 30, 2006), <http://www.justice.gov/atr/public/busreview/219380.htm>.

⁸ Letter from Thomas O. Barnett, Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, to Michael A. Lindsay, Partner, Dorsey & Whitney, LLP (Apr. 30, 2007), <http://www.justice.gov/atr/public/busreview/222978.htm>.

policy also specified that licensing commitments patent holders made in “Letter of Assurance” forms would bind future holders of the patent and affiliates of the patent holder, unless they were specifically excluded. Once again, the division concluded that this proposed policy was a sensible way to preserve competition among technologies vying for inclusion in a standard, and stated that we had no intention of bringing an enforcement action against implementation of the policy.

We continued to devote significant resources to IP issues and, in 2010, the department, FTC, and PTO (again, under the leadership of David Kappos) held a joint workshop on the intersection of patent policy and competition policy and its impact on innovation.⁹ This was the first time the three agencies jointly sponsored this type of workshop; it was an important step forward in fostering a closer relationship between the U.S. competition agencies and the PTO. The workshop included a panel on differences in the frequency of injunctive relief in patent infringement cases brought in U.S. federal courts versus exclusionary relief imposed in investigations instituted at the ITC. Unlike federal courts, the ITC is not able to award damages for patent infringement, but must limit itself to imposing exclusionary relief (exclusion orders and cease and desist orders). The panelists discussed ways to reduce the potential for patent holders to harm competition by taking advantage of the ITC process. They discussed tightening the domestic industry requirement for bringing an ITC action and aligning the ITC’s consideration of exclusion orders with the equitable test that federal courts use when considering whether to issue an injunction.

⁹ *Office of Policy and External Affairs: Workshop on Promoting Innovation*, U.S. PATENT & TRADEMARK OFFICE, http://www.uspto.gov/ip/global/patents/ir_pat_workshop.jsp.

A short while later, the division reviewed several significant transactions involving the purchase of large patent portfolios. They included Google Inc.'s acquisition of Motorola Mobility Holdings, Inc. and Apple, Microsoft Corp., Sony Corp., Ericsson Inc., and Research in Motion Corp.'s acquisition of certain patents owned by Nortel Corporation. Both of these investigations involved patents relating to smartphones and tablets – products that continue to increase in importance to the mobile telecommunications and computing sectors and have become critically important to our business and personal lives.

Our investigations focused on whether the transactions would increase the incentive and ability of the acquiring firms to foreclose rivals. In particular, we focused on F/RAND-encumbered SEPs. We were concerned that the acquirers would try to circumvent these commitments and use the SEPs to hold up rivals. However, we determined that neither of these transactions was likely to substantially lessen competition. In reaching these conclusions, the division took into account public statements by Apple, Google, and Microsoft regarding their licensing practices for F/RAND-encumbered SEPs. Apple and Microsoft, in particular, made clear that they would honor the F/RAND commitments on the SEPs they purchased, including by not seeking injunctions or exclusion orders in infringement actions based on these patents. Google's commitments at the time were less clear, but the division determined that this specific set of patent purchases would not significantly lessen competition.¹⁰

In 2012, then Acting Assistant Attorney General Joe Wayland testified before the Senate Judiciary Committee on the competitive impact of the use of exclusion orders to remedy

¹⁰ Press Release, U.S. Dep't of Justice, Statement of the Department of Justice's Antitrust Division on Its Decision to Close Its Investigation of Google Inc.'s Acquisition of Motorola Mobility Holdings Inc. and the Acquisitions of Certain Patents by Apple Inc., Microsoft Corp. and Research in Motion Ltd. (Feb. 13, 2012), <http://www.justice.gov/opa/pr/2012/February/12-at-210.html>.

infringement of F/RAND-encumbered SEPs.¹¹ Acting Assistant Attorney General Wayland stated that the division was closely monitoring a number of ITC matters involving such SEPs. He noted that, in determining whether to issue an exclusion order, the ITC must take into account its public interest factors, which include the order's impact on "public health and welfare," competitive conditions in the U.S. economy, and U.S. consumers. He explained that, even where infringement is found, the ITC can determine that an exclusion order denying consumers a good is not in the public interest in a particular case. Such may be the case if the value or importance of the infringed patent to the assembled good is "dwarfed by" the value of the good itself, or the patented portion of the good is not important to the operation of the good. Concerned about cases involving F/RAND-encumbered SEPs, Acting Assistant Attorney General Wayland recommended that in seeking public comment on matters, the ITC should gather information relevant to determining whether the public-interest factors weigh against issuing an exclusion order in such cases. He noted that federal courts had begun to consider the appropriateness of issuing injunctive relief to remedy infringement of F/RAND-encumbered patents based on factors in the Supreme Court's *eBay* decision, and that similar considerations could be relevant in ITC public interest determinations.¹²

Also in 2012, I gave a speech at a roundtable hosted by the International Telecommunications Union. In this speech, I detailed six policy proposals that standards-setting organizations could implement to promote competition among implementers of standards. One

¹¹ *Oversight of the Impact on Competition of Exclusion Orders to Enforce Standards-Essential Patents Before the S. Comm. on the Judiciary*, 112th Cong. (2012) (testimony of Joseph F. Wayland, Acting Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice), <http://www.justice.gov/atr/public/testimony/284982.pdf>.

¹² In *eBay*, the Supreme Court held that the traditional four-factor test for injunctions should be applied in patent infringement cases. That test requires a plaintiff to demonstrate: 1) that it has suffered irreparable injury; 2) that remedies available at law are inadequate to compensate for that injury; 3) that considering the balance of hardships, a remedy in equity is warranted; and 4) that the public interest would not be disserved by a permanent injunction. *eBay Inc., v. MercExchange, L.L.C.*, 547 U.S. 388, 390 (2006).

of these policy proposals was to identify “some limitations on the right of the patent holder who has made a F/RAND licensing commitment who seeks to exclude a willing and able licensee from the market through an injunction.”¹³

As you can see, the division has been thinking about and working on issues raised by standards-setting activities and the incorporation of patents into standards for many years. And we have been forging a closer working relationship with the PTO for some time. This relationship is significant because of the growing number and importance of issues raised at the intersection of antitrust and intellectual property law and policy.

III. The Policy Statement

The need for the policy statement arose to a great extent because of the potential for divergence between how federal courts and the ITC remedy infringement of F/RAND-encumbered SEPs. As I mentioned, after *eBay*, a number of federal courts determined that, by voluntarily agreeing to license patents on F/RAND terms, patent holders have conceded that damages, rather than injunctive relief, are an appropriate remedy for infringement of these types of patents in most cases.¹⁴ However, *eBay* does not apply to the ITC.¹⁵ Thus, the threat of an ITC exclusion order remained a potent weapon in the hands of firms owning F/RAND-encumbered SEPs.

¹³ Renata Hesse, Deputy Assistant Att’y Gen., Antitrust Div., U.S. Dep’t of Justice, Six “Small” Proposals for SSOs Before Lunch, Remarks as Prepared for the ITU-T Patent Roundtable (Oct. 10, 2012), <http://www.justice.gov/atr/public/speeches/287855.pdf>.

¹⁴ *See, e.g.*, *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 914 (N.D. Ill. 2012) (stating that “[b]y committing to license its patents on FRAND terms,” the patent holder committed to license the patent in question “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”); *Realtek Semiconductor Corp. v. LSI Corp.*, No. 12-03451, 2013 WL 2181717, at *6 (N.D. Cal. May 20, 2013) (equating a RAND commitment to an admission that monetary damages in the form of a RAND royalty would be adequate compensation). *But see* *Commonwealth Scientific & Indus. Research Org. v. Buffalo Tech., Inc.*, 492 F. Supp. 2d 600, 606 (E.D. Tex. 2007) (finding that money damages for infringement of a RAND-encumbered SEP owned by a research agency would be inadequate compensation).

¹⁵ *Spansion, Inc. v. Int’l Trade Comm’n*, 629 F.3d 1331, 1359 (Fed. Cir. 2010).

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.¹⁶

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

¹⁶ Joint DOJ-PTO Policy Statement, *supra* note 1, at 7-9.

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.¹⁷ 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.

In August 2013, the USTR cited extensively to the policy statement in his letter explaining his decision to disapprove the ITC's exclusion order against certain Apple products based on infringement of a Samsung F/RAND-encumbered SEP. In that letter, the USTR stated that he strongly shared the "substantial concerns" identified in the policy statement, including concerns "about the potential harms that can result from owners of standards-essential patents [] who have made a voluntary commitment to offer to license SEPs on terms that are fair,

¹⁷ Notice of the Commission's Final Determination Finding a Violation of Section 337; Issuance of a Limited Exclusion Order; Termination of Investigation 3, Certain Personal Data and Mobile Communications Devices and Related Software, ITC Inv. No. 337-TA-710, USITC Pub. 4331, 2011 ITC LEXIS 2626, *5 (Dec. 19, 2011).

reasonable and non discriminatory [], gaining undue leverage and engaging in ‘patent hold-up.’”¹⁸

IV. Holders of F/RAND-Encumbered SEPs Have Access to Effective Remedies—Courts are Already Making these Decisions

As I noted earlier, recent federal court decisions applying the Supreme Court’s *eBay* standard have found that holders of F/RAND-encumbered SEPs should not be awarded injunctive relief. Certain recent decisions also demonstrate that, even without injunctive relief, holders of F/RAND-encumbered SEPs may have access to effective remedies for infringement. For example, in the *Innovatio* case in the Northern District of Illinois the parties agreed to have the court invert the normal decision-making order in a patent infringement suit and determine a RAND rate for the 23 patents in Innovatio’s Wi-fi patent portfolio,¹⁹ which has led some parties to settle that litigation.

V. Remedies Are Also Available to Standard Implementers when a Holder of a F/RAND-Encumbered SEP Fails to Offer a License on F/RAND Terms

Recent court decisions also have determined that a F/RAND commitment to an SSO is a binding contract to which implementers of the standard are third-party beneficiaries.²⁰ As a result, implementers may ask a court whether an alleged failure to offer a F/RAND license is a breach of contract. In 2012, a jury in the Western District of Washington determined that Motorola had breached its duty of good faith and fair dealing to Microsoft arising from

¹⁸ USTR Disapproval Letter, *supra* note 2, at 2.

¹⁹ *In re Innovatio IP Ventures, LLC Patent Litig.*, 921 F. Supp. 2d 903 (N.D. Ill. 2013).

²⁰ *See* *Microsoft Corp. v. Motorola, Inc.*, 864 F. Supp. 2d 1023, 1030-33 (W.D. Wash. 2012); *Microsoft Corp. v. Motorola, Inc.*, 854 F. Supp. 2d 993, 999-1001 (W.D. Wash. 2012); *see also* *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 884 (9th Cir. 2012) (holding that the “district court’s conclusions that Motorola’s RAND declarations to the ITU created a contract enforceable by Microsoft as a third-party beneficiary (which Motorola concedes), and that this contract governs in some way what actions Motorola may take to enforce its ITU standard-essential patents (including the patents at issue in the German suit), were not legally erroneous”); *Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-cv-178, 2012 WL 3289835, at *21-22 (W.D. Wis. Aug. 10, 2012); *Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-cv-178, 2011 WL 7324582, at *7-11 (W.D. Wis. June 7, 2011).

Motorola's commitments to two SSOs to license SEPs on RAND terms. As part of that case, the district judge, Judge Robart, held a bench trial and produced an opinion establishing RAND royalty rates and ranges for Motorola's Wi-fi and video codec patent portfolios. These rates and ranges then were used by the jury to determine whether Motorola breached its commitments to offer licenses on RAND terms.²¹

VI. Conclusion

A lot has happened since the division and the PTO issued the joint policy statement. Interestingly, the number of patent infringement matters on the ITC's docket has decreased significantly since the high-water mark of 70 was reached in 2011.²² In fact, for the first five months of this fiscal year, the ITC only instituted 16 investigations to determine if infringing products are being unlawfully imported.²³ Moreover, the joint policy statement and the USTR's August 2013 decision to disapprove the ITC's exclusion order may be having an effect on litigation decisions involving F/RAND-encumbered SEPs. Very few of the pending ITC investigations of this type involve such patents, so the ITC may not be called upon to address these particular complex issues very often. When such cases do arise, however, we hope that the ITC finds our analysis useful.

Thank you again for your time today.

²¹ Microsoft Corp. v. Motorola, Inc., 871 F. Supp. 2d 1089 (W.D. Wash. 2012).

²² *Facts and Trends Regarding USITC Section 337 Violations*, U.S. Int'l Trade Comm'n (Apr. 15, 2013), http://www.usitc.gov/press_room/documents/featured_news/337facts.pdf.

²³ U.S. International Trade Commission, Section 337 Statistical Information, http://www.usitc.gov/press_room/337_stats.htm (website accessed March 24, 2014).