Santa Clara University

Should FRAND Patents Get Exclusion Orders?

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Section 337, not eBay, governs whether the ITC should grant an exclusion order

4 Equitable Factors (eBay)

4 Public Interest Factors (§ 1337(d)(1))

Section 337, not eBay, governs whether the ITC should grant an exclusion order

"May grant"
4 Equitable Factors (eBay)

"Shall direct…unless"
4 Public Interest Factors (§ 1337(d)(1))

Section 337, not eBay, governs whether the ITC should grant an exclusion order

(1)Public Health
(2)Competitive Conditions
(3) Related Production
(4) US Consumers

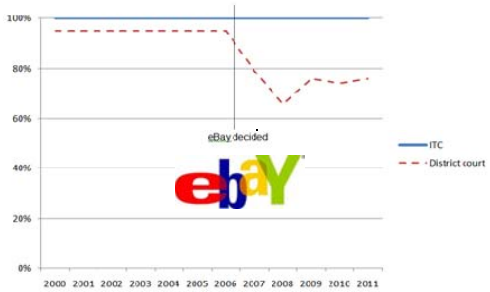
4 Public Interest Factors (§ 337(d)(1))

Section 337, not eBay, governs whether the ITC should grant an exclusion order

"May grant"
4 Equitable Factors (eBay)

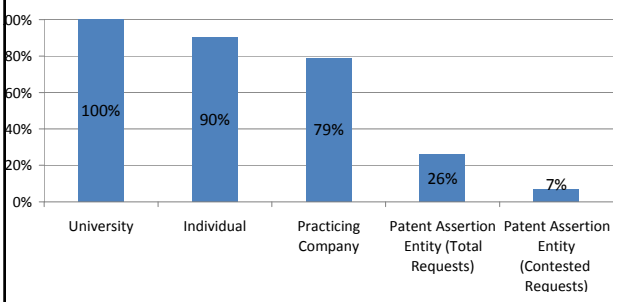
"Shall direct…unless"
4 Public Interest Factors (§ 1337(d)(1))

This difference in standards has resulted in a difference in outcomes



Chien & Lemley (2012)

…Making it hard for certain parties to get injunctions…



Chien & Lemley (2012)

… and driving parties to seek from the ITC what they can't get at district court

"[Since eBay] exclusion orders have increasingly been sought by non-practicing entities that hold U.S. patents."

U.S. International Trade Commission , *Budget Justification Fiscal Year 2012* at p. 21

Today's Panel: Should FRAND patents be able to get exclusion orders?

Today's Panel: Should FRAND patents be able to get exclusion orders but not court injunctions?

Posner: A FRAND royalty would provide all the relief to which Motorola would be entitled…and thus it is not entitled to an injunction.

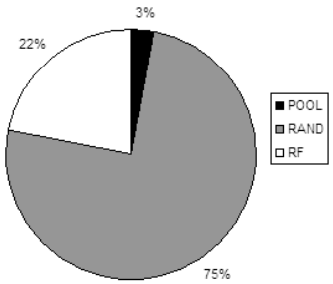
OUII: the mere existence of a RAND obligation does not preclude issuance of relief at the Commission

Next year's appropriation request?

"[Since eBay] exclusion orders have increasingly been sought by entities that hold ***FRAND encumbered standards essential patents***."

Many IT patents are FRAND encumbered…

Example: How Standards in Computer Laptops are Licensed (Biddle, 2010)



In Today's Presentation, I will …

1. Describe the FRAND Bargain
2. Analyze It under eBay and Section 337
3. Look Outside the Courtroom

In Today's Presentation, I will …

1. Describe the FRAND Bargain

The FRAND Bargain…

Patent Holder		SDO/Public
I agree to offer my technology at a reasonable price		We agree to adopt your technology

The FRAND Bargain + the Possibility of Injunctive Relief

Patent Holder		SDO/Public
I agree to offer my technology at a reasonable price… **Take it at my price, or else!**		We agree to adopt your technology

The FRAND Bargain + the Possibility of Injunctive Relief

Patent Holder ⟷ **SDO/Public**

I agree to offer my technology at a reasonable price…

We agree to adopt your technology

In Today's Presentation, I will …

2. Analyze the FRAND Bargain under eBay and Section 337

The FRAND Bargain…

Patent Holder ⟷ **SDO/Public**

Patent Disputes

Patent Holder ⟷ **Accused Infringers**

FRAND + Patent Disputes

Patent Holder ⟷ Infringer +

The FRAND Bargain + eBay

Patent Holder ⟷ Infringer +

I agree to offer my technology at a reasonable price

Ebay: FRAND means that $ is sufficient, and an injunction is not warranted.

The FRAND Bargain + Section 337

Patent Holder ⟷ Infringer +

4 Public Interest Factors
(1) Public Health
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The FRAND Bargain + Section 337

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4 Public Interest Factors

(2) Competitive Conditions

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The FRAND Bargain + Section 337

Patent Holder ⟷ Infringer +

Section 337

Patent Holder ⟷ Infringer

Section 337 + FRAND

Patent Holder ⟷ Infringer + 

If it's a FRAND patent …

"the threat of an exclusion order may allow the holder of a RAND-encumbered SEP to realize royalty rates that reflect patent hold-up, rather than the value of the patent relative to alternatives, which could raise prices to consumers while undermining the standard setting process."

But it's rarely that simple…

What if its FRAND …

Patent Holder ⟷ Infringer + 

But patent holder's offer isn't reasonable

Recommend: bolsters case for disfavoring exclusion order as rewarding anti-competitive behavior

What if its FRAND …

Patent Holder ⟷ Infringer + 

But infringer refuses to take a license

Recommend: exclusion order is favored when there is no district court jurisdiction. If there is district court jurisdiction, damages there are favored (perhaps trebled?).

What if its FRAND …

Patent Holder ⟷ 

But infringer does not plead estoppel, waiver, laches

Recommend: Infringer's lack of knowledge is incidental to the social bargain, doesn't justify upsetting the pro-competitive commitment

But what if its FRAND …

Patent Holder ⟷ 

But infringer does plead estoppel, waiver, laches

Recommend: Infringer's knowledge is incidental to the social bargain, though bolsters preserving the pro-competitive commitment

But what if…

Patent Holder ⟷ Infringer + 

Not FRAND, only standards essential

Recommend: no pro-competitive FRAND commitment to protect, but other considerations will be relevant

Btw, exclusion orders are not just on-off switches

Levers for Tailoring Exclusion Orders

Scope

Timing of Implementation

Bond/Penalty Provisions

Chien & Lemley (2012)

In Today's Presentation, I will …

3. Look Outside the Courtroom

What will happen if the ITC is aligned with district court?

This is the status quo… so likely nothing…

Will patentholders hold out from standards/ FRAND?

- **With no change in status quo, unlikely**
- **They can't afford to give up right…**

What will happen if the ITC awards exclusion orders on FRAND?

FRAND promises won't mean as much

The Market Will React

- **SSOs to add a "no exclusion" clause?**
- **FRAND patents may rush to the ITC**
  - **see, e.g.**
    - **TA-337-800 Interdigital (3G)**
    - **TA-337-818 Vernetix (VPN) (just refiled)**
    - **TA-337-808 HTC (4GLTE)**
    - **…**

There are many FRAND patents

What will happen if the ITC [illegible]usion orders on FRAND?

Vernetix (VHC) is "a tiny company with a handful of patents and little or no ongoing R&D is worth billions of dollars." – Seekingalpha.com

TA-337-818 Vernetix

What will happen if the ITC awards exclusion orders on FRAND?

The FTC, DOJ, and Congress should stay engaged

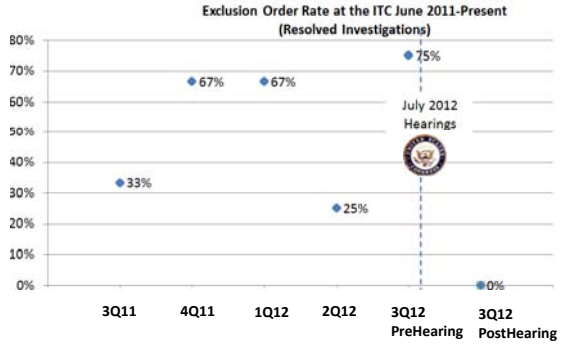
TA-337-800 Interdigital (3G)
TA-337-818 Vernetix (VPN) (just refiled)
TA-337-808 HTC (4GLTE)
…

Indeed, the Statute Requires the ITC to consult with them…

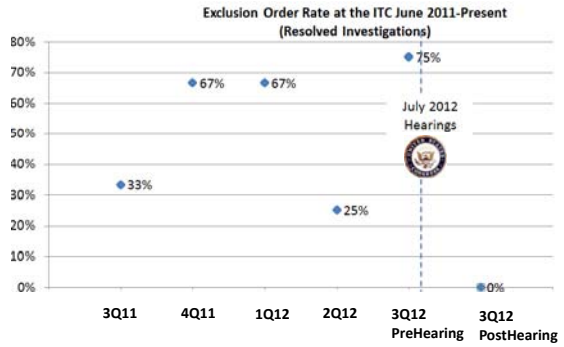
§ 1337 (d)(1)

The Commission shall consult with, and seek advice and information from, the Department of Health and Human Services, the Department of Justice, the Federal Trade Commission, and such other departments and agencies as it considers appropriate.

What Will the ITC Do?



The ITC Has not Issued an Exclusion Order Since the July 2012 Hearings (but N is small)



Thank You

References:

Patent Holdup, the ITC (with Mark Lemley), Cornell Law Review 2012 (forthcoming)

Brief of 19 Professors in TA-337-745 (available on SSRN)

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Question and Answer Period

Question (rephrased): Doesn't denying exclusion orders give a free pass to foreign infringers?

Response: The ITC is being used against domestic companies as much or more than it is being used against foreign ones, among certain ITC cases

ITC DEFENDANTS (PAE CASES)
Jan. 2011-June 2012

Lex Machina

FOREIGN DEFENDANTS:

123

US DEFENDANTS:

209

CA: 92
NJ: 25
NY: 14
TX: 14
GE: 10
MI: 5
OTHER STATES

Question (rephrased): Very few injunctions have been given to NPEs at the ITC. How can you be sure NPEs are rushing to it?

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Response

The ITC has noted is as a factor in their Budget Justification

Also, based on my read of the ITC's own figures (6/18 Facts and Trends Report),~43% of respondents at the ITC in 2011-1Q2012 Were respondents named in NPE Investigations (p.4), and 19% of investigations at the ITC months were NPE-initiated investigations (page 2).

See also: *Calling a Truce over ITC Data*, IP Watchdog (July 20, 2012)