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International Trade Commission Exclusion Orders for the Infringement of Standard-Essential Patents

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INTERNATIONAL TRADE COMMISSION EXCLUSION ORDERS FOR THE INFRINGEMENT OF STANDARD- ESSENTIAL PATENTS

*J. Gregory Sidak**

A patent holder whose U.S. patents have been infringed may seek redress for patent infringement from the U.S. International Trade Commission (ITC) under section 337 of the Tariff Act of 1930. Section 337 authorizes the ITC, among other things, to investigate and bar from entry into the United States products that infringe a valid and enforceable U.S. patent. A holder of standard-essential patents (SEPs) that has committed to license its SEPs on fair, reasonable, and nondiscriminatory (FRAND) terms typically retains the right to file a complaint with the ITC. However, as of October 2016, no SEP holder has been able to enforce an exclusion order against an infringer of SEPs. Limits on the availability of exclusion orders for SEPs have largely arisen from concerns that that remedy might facilitate patent holdup. In 2013, President Obama, acting through the U.S. Trade Representative (USTR), echoed those concerns in vetoing an exclusion order that the ITC had issued against an infringer of SEPs on the grounds that the exclusion order would not serve the public interest in that specific case. The USTR instructed the ITC to examine, in future investigations, whether there is evidence that patent holdup or holdout has occurred. However, a detailed analysis of the ITC's patent decisions shows that the ITC considered those allegations even before President Obama's veto. In addition, the ITC's decisions issued since President Obama's veto have confirmed that, even after examining evidence of patent holdup, public interest considerations will not necessarily weigh against the issuance of an exclusion order. Raising concerns about the theoretical risk of patent holdup and presenting unsupported allegations about the violation of a FRAND commitment will be insufficient to advise against the issuance of an exclusion order. In this Article, I examine the evidence that should inform the ITC's decision in investigations concerning SEPs. I explain that, to the extent that the ITC needs to consider patent holdup in its public-interest analysis, the ITC should determine whether the SEP holder has made a FRAND offer

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to the respondent. If the SEP holder has extended a FRAND offer, any argument that the SEP holder is attempting to extract compensation above the boundaries of its FRAND commitment becomes moot. It is irrelevant, for the purposes of the ITC investigation, why the respondent failed to accept the SEP holder's FRAND offer.

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INTRODUCTION

In the United States, a patent holder can pursue several remedies against a patent infringer. Section 284 of the Patent Act provides that, upon a finding of infringement, “the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty”¹ In addition, § 283 provides that a court “may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent.”² Section 337 of the Tariff Act of 1930 also allows a patent holder to petition the U.S. International Trade Commission (ITC)—a federal agency that investigates matters of international trade and advises on international trade policy—to issue an exclusion order against an infringer, a remedy that denies the importation and sale in the United States of products that infringe a valid and enforceable U.S. patent.³ In a case of patent infringement, a patent holder may thus seek damages for the infringement, an injunction, and an exclusion order.

The ITC has become a popular forum for enforcing intellectual property rights, including standard-essential patents (SEPs).⁴ However, as of October 2016, no SEP holder has been able to enforce an exclusion order against products that infringed SEPs. Limits on the availability of exclusion orders have arisen from concerns that exclusion orders would facilitate patent holdup—that is, that the SEP holder would use an exclusion order as a tool to force the potential licensee to accept a royalty that exceeds the fair, reasonable, and non-discriminatory (FRAND) range.⁵ In

¹ 35 U.S.C. § 284 (2012).

² *Id.* § 283.

³ 19 U.S.C. § 1337 (2012).

⁴ See, e.g., NUMBER OF SECTION 337 INVESTIGATIONS INSTITUTED BY CALENDAR YEAR, U.S. INT'L TRADE COMM'N, http://www.usitc.gov/intellectual_property/documents/cy_337_institutions.pdf; see also Bert C. Reiser & Cyrus T. Frelinghuysen, *An Overview of Section 337 Litigation Before the ITC*, LAW360 (2010), <http://www.law360.com/articles/183706/an-overview-of-section-337-litigation-before-the-itc> (“The ITC, however, has grown ever more popular as a forum for resolving intellectual property disputes, and the commission’s impact on international trade has grown more pronounced.”).

⁵ See, e.g., Joseph Farrell, John Hayes, Carl Shapiro & Theresa Sullivan, *Standard Setting, Patents, and Hold-Up*, 74 ANTITRUST L.J. 603 (2007); Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991 (2007).

August 2013, President Obama, acting through the U.S. Trade Representative (USTR), Michael Froman, echoed those concerns when he vetoed the ITC's exclusion order that was granted against products that infringed SEPs on the grounds that the exclusion order would not serve the public interest.⁶ Ambassador Froman said in that particular case that the issuance of an exclusion order would harm U.S. consumers and the competitive conditions of the U.S. economy.⁷ He instructed the ITC to examine, in future investigations, whether evidence of patent holdup or holdout advises against the issuance of an exclusion order against a product that infringes a FRAND-committed SEP.

A comprehensive analysis of the ITC's patent decisions reveals that the ITC entertained allegations of patent holdup and holdout in § 337 investigations even before President Obama's veto. Furthermore, in at least two investigations that followed President Obama's veto, the administrative law judge (ALJ) examined in detail allegations about the SEP holder's violation of its FRAND commitment, the asserted patent's essentiality, and patent holdup. However, in none of the investigations has an ALJ found those allegations to be sufficiently supported by the facts to weigh against the issuance of an exclusion order. Therefore, the decisions adopted after President Obama's veto show that an exclusion order remains a remedy available against a product that infringes SEPs.

In this Article, I examine the evidence that should inform the ITC's decision of whether to issue an exclusion order against a product that infringes FRAND-committed SEPs. To the extent that the ITC needs to consider patent holdup in its public-interest analysis, the ITC should determine whether the SEP holder has made a FRAND offer to the respondent. If the SEP holder has extended a FRAND offer, any argument that the SEP holder is attempting to extract compensation above the boundaries of its FRAND commitment becomes moot. It is irrelevant, for the purposes of the ITC investigation, why the respondent failed to accept the SEP holder's FRAND offer. Conversely, evidence that the SEP holder made an offer above the FRAND range would support the conclusion that the SEP holder attempted to hold up the respondent and, therefore, could advise against the issuance of an exclusion order. Because the ITC has the statutory duty to issue an exclusion order unless public-interest factors advise against such a remedy,⁸ it should be the respondent's burden to show that, in that specific case, the public interest in avoiding patent holdup outweighs the benefits of issuing an exclusion order. There

⁶ Letter from Michael B.G. Froman, Ambassador, Exec. Office of the President, to Irving A. Williamson, Chairman, U.S. Int'l Trade Comm'n at 3 (Aug. 3, 2013), https://ustr.gov/sites/default/files/08032013%20Letter_1.PDF [hereinafter Ambassador Froman's Letter].

⁷ *Id.* at 1–3.

⁸ See 19 U.S.C. § 1337(d)(1) (2012).

is no valid legal or economic reason to place that burden of proof on the complainant in investigations concerning SEPs.

In Part I, I explain the procedure by which a patent holder may petition the ITC for an exclusion order. In Part II, I analyze the available remedies for a § 337 violation, and in Part III I examine their enforcement. In Part IV, I analyze the ITC's decisions in investigations directed toward products that allegedly infringed FRAND-committed SEPs. I also compare the ITC's decisions before and after President Obama's veto. In Part V, I analyze the evidentiary standard that should inform the ITC's decisions, and the burden of proof that each party bears in presenting that evidence.

I. EXCLUSION ORDERS UNDER § 337

The ITC has broad investigative powers in the five primary areas of international trade: import injury investigations, intellectual-property-based import investigations, industry and economic analysis, tariff and trade information services, and trade policy support.⁹ Section 337 investigations thus fall under intellectual-property-based import investigations.¹⁰

A. *ITC Mandates and Responsibilities*

The ITC grew from protectionist trade legislation in the early twentieth century. The Tariff Act of 1930, also known as the Smoot-Hawley Tariff Act, gave the ITC's predecessor, the U.S. Tariff Commission, the authority to investigate matters of international trade.¹¹ The initial purpose of the Smoot-Hawley Tariff Act was to protect domestic agriculture from foreign competition—although, as enacted, the Act raised tariffs in the industrial sector as well.¹²

Congress replaced the Tariff Commission with the ITC as part of the Trade Reform Act of 1974.¹³ Pursuant to Article I, Section 8 of the Constitution, Congress has the power to regulate trade.¹⁴ The Supreme Court stated that, as a result of this power, “it necessarily follows that no

⁹ *About the USITC*, U.S. INT'L TRADE COMM'N, http://www.usitc.gov/press_room/about_usitc.htm (last visited Sept. 30, 2016).

¹⁰ *Intellectual Property*, U.S. INT'L TRADE COMM'N, https://www.usitc.gov/intellectual_property.htm (last visited Sept. 30, 2016).

¹¹ Tariff Act of 1930, ch. 497, § 337, 46 Stat. 703 (1930) (codified as amended at 19 U.S.C. § 1337 (2012)).

¹² Sapna Kumar, *The Other Patent Agency: Congressional Regulation of the ITC*, 61 FLA. L. REV. 529, 541 (2009); *Protectionism in the Interwar Period*, U.S. DEP'T OF STATE, <https://history.state.gov/milestones/1921-1936/protectionism>.

¹³ Trade Reform Act of 1974, Pub. L. No. 93-618, 88 Stat. 1983 (1974) (codified as amended at 19 U.S.C. § 1337).

¹⁴ U.S. CONST. art. I, § 8.

individual has a vested right to trade with foreign nations.”¹⁵ In other words, there is no legal right to import into the United States. Whereas the Tariff Commission had only advisory power, Congress granted the ITC the power, under § 337, to declare certain practices in import trade unlawful and to bar the importation of products that infringe a U.S. patent.¹⁶ Congress further empowered the ITC to bar the sale for importation of the infringing product and the sale of the offending product within the United States after importation.¹⁷

In 1988, Congress enacted the Omnibus Trade and Competitiveness Act,¹⁸ which broadened § 337’s scope. The 1988 legislation made it easier for a complainant to establish its case before the ITC in two ways, both of which are examined in detail in Part I.C. First, Congress ended the requirements that the complainant prove that the domestic industry was “efficiently and economically operated” and that the importation of infringing goods would “destroy or substantially injure” that industry.¹⁹ Second, Congress added § 337(a)(3), which allows the complainant to establish the existence of the domestic industry by demonstrating that there is, within the United States, “substantial investment in [the patent’s] exploitation, including engineering, research and development, or licensing.”²⁰ I analyze the ITC’s domestic industry requirement in greater detail in Part I.C.

B. *The ITC’s Expedited Docket and Mediation Program for § 337 Investigations*

ITC § 337 investigations typically proceed more quickly than patent-infringement cases in federal district court. Moreover, in 2010, the ITC instituted a mandatory mediation program to facilitate quicker, less costly resolution of § 337 disputes through settlement.

The ITC will decide whether to investigate a case within thirty days of the patent holder’s filing of a complaint.²¹ If the ITC decides to inves-

¹⁵ See *Buttfield v. Stranahan*, 192 U.S. 470, 493 (1904); see also *Sealed Air Corp. v. U.S. Int’l Trade Comm’n*, 645 F.2d 976, 986 (C.C.P.A. 1981) (“The importer has no right to complain as to the operation of the machinery, for the act of importation, even to our citizens, is not a vested right, but an act of grace.” (quoting *In re Orion Co.*, 71 F.2d 458, 465 (C.C.P.A. 1934) (internal citations omitted))).

¹⁶ 19 U.S.C. § 1337(a)(1)(B)–(D) (2012).

¹⁷ *Id.*

¹⁸ Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, 102 Stat. 1107 (codified at 19 U.S.C. §§ 2901–2906 (2012)).

¹⁹ 19 U.S.C. § 1337(a) (1982) (repealed 1988).

²⁰ See 19 U.S.C. § 1337(a) (2012).

²¹ U.S. INT’L TRADE COMM’N, SECTION 337 INVESTIGATIONS: ANSWERS TO FREQUENTLY ASKED QUESTIONS 16 (2009), http://www.usitc.gov/intellectual_property/documents/337_faqs.pdf [hereinafter 337 FAQs].

tigate, which is the norm,²² it will publish a notice of investigation in the *Federal Register* and serve a copy of the complaint and notice of investigation to all named respondents. After the notice of investigation, the ITC assigns an administrative law judge (ALJ) to preside over the hearings.²³ In addition, an investigative attorney from the ITC's Office of Unfair Import Investigations is assigned as a full party to the proceeding and is responsible for representing the public interest.²⁴

Within forty-five days of instituting the investigation, the ITC's ALJ must set a target date for the completion of the investigation, which is typically twelve to fifteen months from its initiation.²⁵ Patent infringement cases in the federal district courts might take five years.²⁶ In contrast with the pace of complex commercial litigation in federal district court, each task within the ITC proceeding takes place within a compressed time frame. For example, discovery in the ITC usually occurs within five to seven months of the filing of the complaint.²⁷ Evidentiary hearings in the ITC typically occur within seven months.²⁸

In August 2010, the ITC instituted, as a permanent agency program, a mediation program for § 337 investigations.²⁹ The purpose of the mediation program is to facilitate settlement by providing an "inexpensive, confidential, and quick mechanism to evaluate whether settlement can be achieved."³⁰ Even if the parties do not reach a settlement, they might narrow issues and claims in the investigation during mediation.³¹ Private parties in all § 337 cases are "eligible" to participate in the mediation program,³² but, practically speaking, participation is mandatory at the discretion of the ALJ—that is, the presiding ALJ may nominate a § 337

²² *Id.* ("Decisions not to institute an investigation are rare.")

²³ *Id.* at 1–2.

²⁴ *Id.* at 2.

²⁵ *Id.* at 20; see also Christopher A. Hughes & Michael P. Dougherty, *Current Trends in U.S. Patent Litigation: How to Succeed in "Rocket Docket" Courts, The ITC, and Arbitration*, THE INTERNATIONAL COMPARATIVE LEGAL GUIDE TO: PATENTS 2011, ch. 2, at 3 (Global Legal Group Ltd. 2011).

²⁶ See Gilbert B. Kaplan & Courtland Reichman, *The ITC or the District Court? Where to Protect Your International Intellectual Property*, 10 BRIEFLY, Nov. 2006, at 1.

²⁷ *Id.*

²⁸ See Russell E. Levine, *The Benefits of Using the ITC*, MANAGING INTELL. PROP., Sept. 2004, at 27–28, http://www.kirkland.com/siteFiles/kirkexp/publications/2386/Document1/Lvine_MIP.pdf.

²⁹ U.S. INT'L TRADE COMM'N, USER MANUAL FOR COMMISSION MEDIATION PROGRAM FOR SECTION 337 INVESTIGATIONS, https://www.usitc.gov/intellectual_property/documents/Manual_for_Commission_Mediation_Program_337.pdf [hereinafter ITC MEDIATION PROGRAM USER MANUAL].

³⁰ U.S. INT'L TRADE COMM'N, SECTION 337 MEDIATION PROGRAM, Pub. No. 4579, at 3 (Nov. 2015), https://www.usitc.gov/intellectual_property/documents/mediation_brochure_pub_4579_2015_final.pdf [hereinafter ITC MEDIATION PROGRAM].

³¹ ITC MEDIATION PROGRAM USER MANUAL, *supra* note 29, at 9.

³² *Id.* at 7.

case for inclusion in the mediation program.³³ The Secretary to the Commission, who works with the mediator to conduct a settlement conference, coordinates the program.³⁴ The mediators, who serve on a pro bono basis and have been approved by the ITC, are outside experts and consultants with experience in both patent litigation and mediation.³⁵

Upon filing a complaint, each complainant and respondent receives materials explaining the mediation program.³⁶ Private parties to a § 337 dispute may request participation in the program by filing a Confidential Request to Enter Mediation, copies of which are served on all private parties.³⁷ The presiding ALJ may refer § 337 investigations to the Secretary to the Commission, who may discuss the possibility of mediation with the parties involved. The ALJ may also require attendance by parties at mediation sessions.³⁸ If the mediator concludes that further mediation efforts “will not be fruitful,” then the mediation ceases.³⁹ The ITC typically expects mediations to take one day. In fact, mandatory attendance by a party at a mediation session may not exceed a single day.⁴⁰ Unlike in arbitration, a settlement agreement, which is binding on all parties, can be achieved “only if all parties agree on that resolution.”⁴¹ Upon reaching a settlement, the parties must jointly file a motion for termination of the investigation based on the settlement agreement or seek a consent order regarding termination.⁴²

C. *Elements to Establish a § 337 Claim*

Section 337(a)(1)(B) prohibits “the importation into the United States, the sale for importation, and the sale within the United States after importation . . . of articles that infringe a valid and enforceable United States patent.”⁴³ For a complainant to bring a successful § 337 claim before the ITC, the complainant must establish (1) infringement of a patent under Title 35 of the U.S. Code, (2) the importation of the allegedly infringing product, and (3) the existence of a domestic industry related to the product that is protected by the patent.⁴⁴

³³ ITC MEDIATION PROGRAM, *supra* note 30, at 5.

³⁴ *Id.*

³⁵ *Id.* at 8.

³⁶ *Id.* at 7.

³⁷ *Id.*

³⁸ *Id.* at 7–8 (pursuant to 5 U.S.C. §§ 556(c)(6), (8) (2012)).

³⁹ *Id.* at 9.

⁴⁰ *Id.* at 8 n.1.

⁴¹ *Id.* at 10.

⁴² *Id.*

⁴³ 19 U.S.C. § 1337(a)(1)(B) (2012).

⁴⁴ *Id.* § 1337(a)(1)–(2).

The standard to establish patent infringement in the ITC is the same standard as in federal district court.⁴⁵ Section 271 defines a patent infringer as one who “without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor,” as well as one who “actively induces” the infringement of a patent.⁴⁶

To satisfy § 337's importation requirement, the complainant must prove “the importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee” of the infringing product.⁴⁷ The importation requirement is “not limit[ed] ‘to . . . the actual physical process of importation.’”⁴⁸ As long as there is a connection to importation, the importation requirement is satisfied. Moreover, there is no minimum quantity of infringing products that must be imported into the United States to meet the importation requirement.⁴⁹ Although the infringing product must be imported, a foreign firm need not produce it to be investigated by the ITC. Thus, because the ITC considers the location of the product in question instead of the location of the respondent, a patent holder may pursue claims against multiple entities from all over the world in a single ITC investigation as long as the infringing product has been imported.

Section 337(a)(2) provides that the prohibition on importation applies “only if an industry in the United States, relating to the articles protected by the patent . . . exists or is in the process of being established.”⁵⁰ Therefore, in addition to proving that the imported products infringe a valid and enforceable U.S. patent, the complainant must show the existence of a domestic industry related to the patent in suit. Section 337(a)(3) clarifies that a U.S. industry exists if there are (1) significant investments in plant and equipment, (2) significant employment of labor or capital, or (3) substantial investment in the exploitation of the patent, including investments in engineering, research and development, or li-

⁴⁵ See, e.g., *Texas Instruments, Inc. v. Tessera, Inc.*, 231 F.3d 1325, 1330 (Fed. Cir. 2000) (“In section 337 proceedings relevant to patent infringement, the ITC follows Title 35 of the United States Code and the case law of this court.”).

⁴⁶ 35 U.S.C. § 271(a)–(b) (2012).

⁴⁷ 19 U.S.C. § 1337(a)(1)(B) (2012).

⁴⁸ Kaplan & Reichman, *supra* note 26, at 41–42 (quoting *Welded Stainless Steel Pipe & Tube, Inv. No. 337-TA-29*, 1978 WL 50692, at *8 (USITC Feb. 22, 1978) (Final)). Kaplan and Reichman review several ITC determinations, illustrating the broad coverage of the importation requirement. See *id.* at 41–43.

⁴⁹ Jamie D. Underwood & Ian A. Taronji, *ITC Exclusion Is Better Than Litigation: Swift Action, Sweeping Remedies*, EXECUTIVE COUNSEL, Jan.–Feb. 2008, at 1.

⁵⁰ 19 U.S.C. § 1337(a)(2) (2012).

censing.⁵¹ The complainant needs to satisfy only one of these criteria to prove the existence of a domestic industry.⁵²

D. *The ITC's Discretion in Issuing an Exclusion Order*

In deciding whether to issue an exclusion order, the ITC follows a two-step process. First, the ITC must determine whether there is a violation of § 337. In doing so, the ITC must examine the requirements analyzed in Part I.C. In addition, § 337(c) affords the respondent the opportunity to raise “[a]ll legal and equitable defenses” during the ITC’s determination of whether the respondent has violated § 337.⁵³ Congress adopted this defense provision in 1975 after observing that “the ultimate issue of the fairness of competition raised by section 337[] necessitate[s] that the Commission review *the validity and enforceability of patents, for the purposes of section 337*, in accordance with contemporary legal standards.”⁵⁴ Because § 337 requires that the U.S. patent be both valid and enforceable,⁵⁵ the ITC will conclude that there is no violation of § 337 if the respondent presents sufficient evidence that the patent is not valid or not enforceable.⁵⁶ For example, the respondent could argue that the patent is unenforceable because there exists an implied license for the patent in suit.⁵⁷ Similarly, the respondent could present a defense of patent exhaustion—a doctrine that determines that “the initial authorized sale of a patented item terminates all patent rights to that item.”⁵⁸ Therefore, the defense provision of § 337(c) allows the respondent to raise any equita-

⁵¹ For a detailed analysis of the criteria to establish the existence of a domestic industry, see J. Gregory Sidak, *Economic Analysis of the Existence of a Domestic Industry in Section 337 Patent Infringement Cases at the U.S. International Trade Commission*, 2 CRITERION J. ON INNOVATION (forthcoming 2017), <https://www.criterioneconomics.com/economic-theory-of-investment-domestic-industry-requirement-itc.html>.

⁵² *Id.*; see also AM. BAR ASS’N, SECTION OF INTELLECTUAL PROP. LAW, A LAWYER’S GUIDE TO SECTION 337 INVESTIGATIONS BEFORE THE U.S. INTERNATIONAL TRADE COMMISSION 55 (Tom M. Schaumberg ed., 3d ed. 2016).

⁵³ 19 U.S.C. § 1337(c) (2012).

⁵⁴ S. REP. NO. 93-1298, at 196 (1974), *reprinted in* 1974 U.S.C.C.A.N. 7186, 7329 (emphasis added).

⁵⁵ 19 U.S.C. § 1337(a)(B)(i) (2012).

⁵⁶ See, e.g., *Certain Personal Computers & Digital Display Devices*, Inv. No. 337-TA-606, 2008 WL 2740242, at *1 (USITC Jan. 25, 2008) (Order No. 24: Denying Acer’s Motion for Summary Determination Regarding the ‘119 Patent) (“[R]espondents . . . moved for summary determination that there is no violation of Section 337 based upon . . . [complainant’s] covenant not to sue.”).

⁵⁷ *Certain Dynamic Random Access Memory Devices & Prods. Containing Same*, Inv. No. 337-TA-595, 2008 WL 164309, at *2 (USITC Jan. 14, 2008) (Order No. 16: Denying Complainant’s Motion for Partial Summary Determination on Respondents’ Second, Third, Fourth, Sixth, Seventh, and Eighth Affirmative Defense).

⁵⁸ *Certain Consumer Electronics with Display & Processing Capabilities*, Inv. No. 337-TA-619, 2014 WL 1649089, at *3 (USITC Apr. 4, 2014) (Order No. 76: Denying Motion for Summary Determination as to Accused Products; and Denying Related Motion to Strike) (quoting *Tessera, Inc. v. Int’l Trade Comm’n*, 646 F.3d 1357, 1369 (Fed. Cir. 2011)).

ble and legal defense that it could also raise in a patent infringement lawsuit to show that the asserted patent is invalid and unenforceable.

However, if the ITC finds a violation of § 337, it must act. The ITC

shall direct that the articles concerned . . . be excluded from entry in the United States, unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry.⁵⁹

The Federal Circuit has emphasized that “the use of ‘shall’ in a statute is ‘the language of command.’”⁶⁰ That is, “[b]y statute, the Commission is *required* to issue an exclusion order upon finding a § 337 violation, absent a finding that the effects of one of the statutorily-enumerated public-interest factors counsel otherwise.”⁶¹ Put differently, the ITC must issue an exclusion order if it finds a violation of § 337, unless the effect of the exclusion order on the statutory public-interest factors—public health and welfare, U.S. competitive conditions, the production of competitive articles, and U.S. consumers—outweighs the benefits of the exclusion order.

As of October 2016, the ITC has found on only three occasions that the public-interest considerations outweighed the benefits of issuing an exclusion order.⁶² The Federal Circuit observed that, in the few cases in which the ITC denied an exclusion order upon finding infringement, the ITC did so because it concluded that “an exclusion order would *deprive* the public of products *necessary* for some important health or welfare need: energy efficient automobiles, basic scientific research, or hospital equipment.”⁶³ Put differently, unless an exclusion order would pose “a

⁵⁹ 19 U.S.C. § 1337 (2012) (emphasis added).

⁶⁰ *Farrel Corp. v. U.S. Int'l Trade Comm'n*, 949 F.2d 1147, 1153 (Fed. Cir. 1991) (citing *Ass'n of Am. R.R. v. Costle*, 562 F.2d 1310, 1312 (D.C. Cir. 1977)).

⁶¹ *Spansion, Inc. v. U.S. Int'l Trade Comm'n*, 629 F.3d 1331, 1358 (Fed. Cir. 2010) (emphasis added).

⁶² *Certain Fluidized Supporting Apparatus & Components Thereof*, Inv. No. 337-TA-182/188, Pub. 1667, 1984 WL 63741 (USITC Oct. 1, 1984) (Final); *Certain Inclined-Field Acceleration Tubes & Components Thereof*, Inv. No. 337-TA-67, Pub. 1119, 0080 WL 594319 (USITC Dec. 1, 1980) (Final); *Certain Automatic Crankpin Grinders*, Inv. No. 337-TA-60, Pub. 1022, 0079 WL 419349 (USITC Dec. 1, 1979) (Final); see also P. Andrew Riley & Scott A. Allen, *The Public Interest Inquiry for Permanent Injunctions or Exclusion Orders: Shedding the Myopic Lens*, 17 *VAND. J. ENT. & TECH. L.* 751, 759–62 (2015).

⁶³ *Spansion*, 629 F.3d at 1360 (emphasis added) (internal citation omitted).

real threat to the best interests of the country,” the ITC will issue an exclusion order upon finding a § 337 violation.⁶⁴

II. AVAILABLE REMEDIES FOR A VIOLATION OF § 337

When the ITC finds a violation of § 337, it has three remedies at its disposal: it may issue a limited exclusion order, a general exclusion order, or a cease-and-desist order. An exclusion order is an *in rem* remedy, meaning that it is directed at the infringing input, not at the particular respondent. Section 337(d)(1) states that the ITC “shall direct that the *articles concerned* . . . be excluded from entry.”⁶⁵ The Court of Customs and Patent Appeals (the predecessor to the Federal Circuit) stated that “[a]n exclusion order operates against goods, not parties.”⁶⁶ Consequently, the ITC does not need personal jurisdiction over the respondent to issue an exclusion order.⁶⁷ A cease-and-desist order, by contrast, is an *in personam* remedy that is directed at the respondent. Section 337(f)(1) states that the ITC “may issue and cause to be served on any *person*” a cease-and-desist order.⁶⁸ The Federal Circuit has confirmed that the ITC “may issue cease and desist orders when it has personal jurisdiction over the party against whom the order is directed.”⁶⁹

A. Limited Exclusion Orders

A limited exclusion order prohibits named respondents, including manufacturers of the infringing input and downstream products, from importing the infringing input (and downstream products) into the United States.⁷⁰ Although the remedy has a similar effect as an injunction that a court may issue in a patent infringement case, a limited exclusion order pursues a fundamentally different goal. Section 283 of the Patent Act provides a court the authority to grant an injunction “to prevent the violation of any right secured by patent.”⁷¹ By issuing an injunction, a court aims to protect the patent holder’s patent rights. Conversely, the purpose of an ITC remedy is to protect U.S. domestic industry and trade, not to protect the patent holder.⁷² The ITC does not administer the Patent Act.

⁶⁴ Certain Wireless Devices with 3G and/or 4G Capabilities & Components Thereof, Inv. No. 337-TA-868, Pub. 2929, 2014 WL 2965327, at *113 (USITC June 13, 2014) (Initial).

⁶⁵ 19 U.S.C. § 1337(d)(1) (2012) (emphasis added).

⁶⁶ Sealed Air Corp. v. U.S. Int’l Trade Comm’n, 645 F.2d 976, 985 (C.C.P.A. 1981).

⁶⁷ *Id.* (stating that an exclusion order is “not contingent” upon a determination of personal jurisdiction).

⁶⁸ 19 U.S.C. § 1337(f)(1) (2012) (emphasis added).

⁶⁹ Gamut Trading Co. v. U.S. Int’l Trade Comm’n, 200 F.3d 775, 784 (Fed. Cir. 1999).

⁷⁰ 19 U.S.C. § 1337(d)(1) (2012).

⁷¹ 35 U.S.C. § 283 (1952).

⁷² See, e.g., Elizabeth I. Winston, *Patent Pledges at the International Trade Commission*, in PATENT PLEDGES—GLOBAL PERSPECTIVES ON PATENT LAW’S PRIVATE ORDERING FRONTIER (Jorge L. Contreras & Meredith Jacob eds., forthcoming 2017).

The ITC is a federal agency with “investigative responsibilities on matters of trade.”⁷³ Consequently, it administers trade remedies, and not remedies for patent infringement.⁷⁴

Included in the ITC’s power to issue an exclusion order is the authority to issue a temporary exclusion order under the same standard that the federal district courts use in issuing a preliminary injunction.⁷⁵ The Federal Circuit stated in *Rosemount, Inc. v. ITC* that § 337 “requires that the exercise of its temporary relief authority should generally parallel that of the district courts.”⁷⁶ Accordingly, the Federal Circuit cited the following factors that district courts, and therefore the ITC as well, ought to consider when granting preliminary relief:

- (1) the movant’s likelihood of success on the merits; (2) whether or not the movant will suffer irreparable injury during the pendency of the litigation if the preliminary injunction is not granted; (3) whether or not that injury outweighs the harm to other parties if the preliminary injunction is issued; and (4) whether the grant or denial of the preliminary injunction is in the public interest.⁷⁷

If the ITC issues a temporary exclusion order, it remains in effect during the course of the investigation, as does a preliminary injunction in federal district court.

B. General Exclusion Orders

A general exclusion order prohibits *any* party, including parties not named as respondents in the ITC’s investigation, from importing a product containing the infringing input into the United States.⁷⁸ The general exclusion order has no counterpart in federal district court, as an injunction applies only to named parties.

To issue a general exclusion order, the ITC must find that such an order “is necessary to prevent circumvention of [a limited exclusion order]” or that “there is a pattern of violation . . . and it is difficult to identify the source of infringing products.”⁷⁹ These statutory requirements raise the bar for complainants to obtain general exclusion orders.⁸⁰

⁷³ *About the USITC*, U.S. INT’L TRADE COMM’N, https://www.usitc.gov/press_room/about_usitc.htm.

⁷⁴ *See id.*

⁷⁵ 19 U.S.C. § 1337(e)(3) (2012) (“The Commission may grant preliminary relief . . . to the same extent as preliminary injunctions and temporary restraining orders may be granted under the Federal Rules of Civil Procedure.”).

⁷⁶ *Rosemount, Inc. v. Int’l Trade Comm’n*, 910 F.2d 819, 821 (Fed. Cir. 1990).

⁷⁷ *Id.* (citing *Ill. Tool Works, Inc. v. Grip-Pak, Inc.*, 906 F.2d 679, 681 (Fed. Cir. 1990)).

⁷⁸ 19 U.S.C. § 1337(d)(2) (2012).

⁷⁹ *Id.*

⁸⁰ *See Kaplan & Reichman, supra* note 26, at 47.

In *Certain Inkjet Ink Supplies & Components Thereof*, the ALJ issued a general exclusion order that barred the importation of any products that infringed four inkjet patents held by Hewlett-Packard.⁸¹ The ALJ noted the “widespread pattern of unauthorized use” by the respondents, as well as the difficulty in identifying the sources of the infringing products.⁸² The ALJ also stated that some of the respondents “engaged in tactics that make it difficult to identify the true source of the online sale and/or distribution of infringing activities, including creating multiple websites and corporate identities.”⁸³ The ITC affirmed the issuance of the general exclusion order.⁸⁴

C. Cease-and-Desist Orders

The ITC may issue a cease-and-desist order as a sole remedy or in conjunction with an exclusion order.⁸⁵ A cease-and-desist order prohibits the sale of further units of an infringing input that are already in inventory in the United States at the time of the ITC’s decision.⁸⁶ The ITC generally issues a cease-and-desist order to a respondent having a “commercially significant” domestic inventory, to prevent the respondent from flooding the market with products containing the infringing input that are already in inventory, thereby undermining the effect of an exclusion order.⁸⁷ By the same reasoning, in *Texas Instruments Inc. v. ITC*, the Federal Circuit affirmed the ITC’s issuance of a cease-and-desist order in conjunction with a limited exclusion order.⁸⁸ The limited exclusion order prohibited respondents from importing the infringing product into the United States, and the cease-and-desist order prohibited the respondents from selling their domestic inventory.⁸⁹ If a respondent has no domestic inventory, however, a cease-and-desist order would be ineffective to remedy the patent infringement. For example, in *Fuji Photo Film Co. v. ITC*, the Federal Circuit affirmed the decision of the ITC not to issue a cease-and-desist order against certain respondents because they did not maintain any inventory in the United States.⁹⁰ The ITC (and subse-

⁸¹ *Certain Inkjet Ink Supplies & Components Thereof*, Inv. No. 337-TA-691, 2010 WL 5586103, at *20–21 (USITC Aug. 30, 2010) (Initial).

⁸² *Id.* at *17–18.

⁸³ *Id.* at *18.

⁸⁴ *Certain Inkjet Ink Supplies & Components Thereof*, Inv. No. 337-TA-691, Pub. 4290, 2011 WL 7464367, at *1–3 (USITC Nov. 1, 2011) (Final).

⁸⁵ 19 U.S.C. § 1337(f)(1) (2012).

⁸⁶ *Id.*

⁸⁷ *See, e.g.*, *Certain Lens-Fitted Film Packages*, Inv. No. 337-TA-406, Pub. 3219, 1999 WL 731020, at *16–17 (USITC June 2, 1999) (Final), *rev’d on other grounds*, *Jazz Photo Corp. v. Int’l Trade Comm’n*, 264 F.3d 1094 (Fed. Cir. 2001); *see also* *Underwood & Taronji*, *supra* note 49.

⁸⁸ 988 F.2d 1165, 1168 (Fed. Cir. 1993).

⁸⁹ *Id.* at 1169.

⁹⁰ 386 F.3d. 1095, 1106 (Fed. Cir. 2004).

quently the Federal Circuit) found that under those circumstances, a general exclusion order was sufficient.⁹¹

D. Exclusion Order Bonds

The ITC may require a party to post two types of bonds when the agency issues an exclusion order. First, under § 337(e)(2), the ITC may require a complainant to post a bond as a prerequisite to receiving a temporary exclusion order.⁹² This type of bond is identical to an injunction bond that a federal district court may require a patent holder to post as a prerequisite to receiving a preliminary injunction. Second, under § 337(e)(1) and § 337(j)(3), a respondent found liable for patent infringement may continue to import the infringing input during the sixty-day presidential review period if the respondent posts a bond.⁹³

According to Rule 65 of the Federal Rules of Civil Procedure, which the ITC follows in issuing preliminary relief,⁹⁴ the ITC may grant a temporary exclusion order “only if” the complainant gives security (that is, posts an injunction bond) in an amount that the ITC deems proper to compensate the respondent if it is wrongfully enjoined by the temporary exclusion order.⁹⁵ When a complainant moves for a temporary exclusion order, it must address whether it should be required to post a bond and, if it believes that it should, it must specify the appropriate amount of the bond.⁹⁶ Likewise, when the respondent files its response to the complainant’s motion for temporary relief, it must address the complainant’s assertions as to whether a bond should be required and the appropriate amount of the bond.⁹⁷ Typically, the complainant will argue that it should not be required to post a bond, but if it is required to do so, that the bond amount should be minimal.⁹⁸ Conversely, the respondent will contend that the ITC should require the complainant to post a significant bond if the ITC grants preliminary relief.⁹⁹ If the ITC requires the complainant to post a bond, the complainant must submit the bond within the period specified by the ITC. Otherwise, the ITC will not issue the temporary exclusion order.¹⁰⁰ If the ITC later determines that the respondent did not violate § 337, then the respondent may move for a hearing

⁹¹ *Id.*

⁹² 19 U.S.C. § 1337(e)(2) (2012).

⁹³ *Id.* § 1337(e)(1) & (j)(3).

⁹⁴ *See id.* § 1337(e)(3).

⁹⁵ FED. R. CIV. P. 65(c).

⁹⁶ 19 C.F.R. § 210.52(b) (2015).

⁹⁷ *Id.* § 210.59(a)–(b).

⁹⁸ *See, e.g.,* Certain Silicon Microphone Packages & Prods. Containing the Same, Inv. No. 337-TA-695, Pub. 4293, 2011 WL 7575648, at *200–01 (USITC Nov. 1, 2011) (Initial).

⁹⁹ *See, e.g., id.*

¹⁰⁰ 19 C.F.R. § 210.68 (2015).

to determine whether the complainant's bond should be forfeited to the respondent.¹⁰¹

After the ITC has issued an exclusion order, the ITC will permit the respondent to import the infringing input into the United States during the presidential review period, provided that the respondent posts a bond "sufficient to protect the complainant from any injury"¹⁰² during the presidential review period.¹⁰³ Under § 337(j)(3), after the issuance of an exclusion order and "until such determination becomes final"—that is, until the presidential review period expires—the respondent is "entitled to entry under bond."¹⁰⁴ When the determination becomes final, the bond is then forfeited to the complainant.¹⁰⁵ In *Certain Semiconductor Chips Having Synchronous Dynamic Random Access Memory Controllers & Products Containing Same*, the ALJ recommended a limited exclusion order, a cease-and-desist order, and a bond set "at a reasonable royalty rate during the Presidential review period."¹⁰⁶ The ITC affirmed the limited exclusion order and cease-and-desist order and specified that the amount of the bond would be "2.65[%] of the entered value of accused products" during the presidential review period.¹⁰⁷ The ITC noted that the complainant had not established the need for a higher bond rate to protect it from injury.¹⁰⁸ In contrast, in *Certain Inkjet Ink Supplies & Components Thereof*, upon the issuance of a general exclusion order, the ALJ set the bond amount at 100% of the price "differential between the domestic product and the imported, infringing product."¹⁰⁹ Because none of the respondents participated in discovery, the ALJ found "insufficient reliable price information to set a bond based on price differential," and he therefore recommended a bond amount of 100%,¹¹⁰ which the ITC affirmed.¹¹¹

¹⁰¹ *Id.* § 210.70.

¹⁰² 19 U.S.C. § 1337(e)(1) (2012).

¹⁰³ See *Certain Mobile Tels. & Wireless Commc'ns Devices Featuring Digital Cameras, & Components Thereof*, Inv. No. 337-TA-663, 2009 WL 6037686, at *1 n.2 (USITC Dec. 23, 2009) (ALJ's Recommended Determination on Remedy & Bonding).

¹⁰⁴ 19 U.S.C. § 1337(j)(3) (2012).

¹⁰⁵ *Id.*

¹⁰⁶ *Certain Semiconductor Chips Having Synchronous Dynamic Random Access Memory Controllers & Prods. Containing Same*, Inv. No. 337-TA-661, Pub. 4266, 2010 WL 3196463, at *1 (USITC Aug. 10, 2010) (Final) (internal quotation marks omitted).

¹⁰⁷ *Id.* at *9.

¹⁰⁸ *Id.*

¹⁰⁹ *Certain Inkjet Ink Supplies & Components Thereof*, Inv. No. 337-TA-691, 2010 WL 5586103, at *20 (USITC Aug. 30, 2010) (Initial) (citing *Certain Microsphere Adhesives, Processes for Making Same, & Prods. Containing Same* at 24, Including Self-Stick Repositionable Notes, Inv. No. 337-TA-336 (1995) (Final)).

¹¹⁰ *Id.*

¹¹¹ See *Certain Inkjet Ink Supplies & Components Thereof*, Inv. No. 337-TA-691, Pub. 4290, 2011 WL 7464367, at *1-3 (USITC Nov. 1, 2011) (Final).

III. ENFORCEMENT OF REMEDIES

ITC determinations that find a violation of § 337 are subject to presidential review.¹¹² Any party affected by the ITC's determination may also appeal the decision to the U.S. Court of Appeals for the Federal Circuit, which has appellate jurisdiction over the ITC's determinations.¹¹³

A. Presidential Review

Within sixty days of receiving the ITC's determination, the President, "for policy reasons," may disapprove of the determination, in which case the ITC's determination will have "no force or effect."¹¹⁴ If the President does not exercise this power, the ITC's determination becomes final after sixty days, at which point the parties then have sixty days in which to appeal an unfavorable decision to the Federal Circuit.¹¹⁵ Presidential review is, nonetheless, exceedingly rare. The President has reviewed an ITC § 337 determination only six times since the creation of the ITC.¹¹⁶ President Carter issued the first presidential disapproval, President Reagan issued the next four, and President Obama issued the most recent disapproval.¹¹⁷ Reagan disapproved of the ITC's issuance of a limited exclusion order that applied to downstream products in addition to the infringing input because it could unnecessarily disrupt trade in the downstream products.¹¹⁸ Reagan's disapproval suggested that the ITC should have issued a narrower remedy.¹¹⁹ Reagan's 1981 disapproval in *Certain Multi-Ply Headboxes* was based on similar grounds and stated

¹¹² 19 U.S.C. § 1337(j)(2) (2012).

¹¹³ *Id.* § 1337(c) ("[A]ny person adversely affected by a final determination of the Commission . . . may appeal such determination . . . to the United States Court of Appeals for the Federal Circuit.").

¹¹⁴ *Id.* § 1337(j)(2).

¹¹⁵ 337 FAQs, *supra* note 21, at 26.

¹¹⁶ *See, e.g.*, Ambassador Froman's Letter, *supra* note 6; Presidential Disapproval of Determination of the U.S. Int'l Trade Comm'n, Certain Dynamic Random Access Memories, USITC Inv. No. 337-TA-242, 52 Fed. Reg. 46,011 (Dec. 3, 1987) [hereinafter Presidential Disapproval of Certain Dynamic Random Access Memories]; Presidential Disapproval of Determination of the U.S. Int'l Trade Comm'n, Certain Alkaline Batteries, USITC Inv. No. 337-TA-165, 50 Fed. Reg. 1655 (Jan. 11, 1985); Presidential Disapproval of Determination of the U.S. Int'l Trade Comm'n, Certain Molded-In Sandwich Panel Inserts, USITC Inv. No. 337-TA-99, 47 Fed. Reg. 29,919 (July 9, 1982); Presidential Disapproval of Determination of the U.S. Int'l Trade Comm'n, Certain Multi-Ply Headboxes, USITC Inv. No. 337-TA-82, 46 Fed. Reg. 32,361 (June 22, 1981) [hereinafter Presidential Disapproval of Certain Multi-Ply Headboxes]; Presidential Disapproval of Determination of the U.S. Int'l Trade Comm'n Welded Stainless Steel Pipe & Tubes, USITC Inv. No. 337-TA-29, 43 Fed. Reg. 17,789 (Apr. 26, 1978).

¹¹⁷ *See supra* note 116.

¹¹⁸ *See* Presidential Disapproval of Certain Dynamic Random Access Memories, *supra* note 116.

¹¹⁹ *Id.*

that the general exclusion order issued by the ITC was too broad, but that “[a]n exclusion order directed only to the respondent’s products, or a narrowly drafted cease and desist order would appear to be entirely justified and appropriate.”¹²⁰

B. Enforcement, Stays, and Appeals

U.S. Customs and Border Protection (CBP) enforces exclusion orders issued by the ITC and bars entry of infringing articles into the United States.¹²¹ It can be burdensome for CBP to detect an infringing input in a product that includes many components. In such a case, the ITC may, and often does, include in an exclusion order a provision that authorizes CBP to accept sworn certification by importers that their imported products are not subject to the exclusion order.¹²² When respondents redesign their excluded products after the ITC’s issuance of an exclusion order, the ITC or CBP must determine whether the redesigned products fall outside the scope of the exclusion order. Until CBP or the ITC has determined that the redesigned products are non-infringing, those products are barred from importation.¹²³ Respondents, importers, or third parties can request either a non-binding ruling from CBP that their redesigned products fall outside the scope of the exclusion order¹²⁴ or an advisory opinion from the ITC that their redesigned products are non-infringing and hence not subject to the exclusion order.¹²⁵ To avoid delay in obtaining an ITC advisory opinion on the importation of a redesigned product, the respondent may submit to the ITC its redesigned product during the § 337 investigation.¹²⁶

The ITC itself enforces cease-and-desist orders. When a party violates a cease-and-desist order, the ITC issues a fine, recoverable through

¹²⁰ Kaplan & Reichman, *supra* note 26, at 30 n.68 (quoting Presidential Disapproval of Certain Multi-Ply Headboxes, *supra* note 116).

¹²¹ 19 U.S.C. § 1337(d) (2012).

¹²² See Michael J. McKeon, Jeffrey R. Whieldon & Joshua B. Pond, ITC Update: Remedies, Enforcement & Other Developments, Presented at the IPO Annual Meeting, at 22 (Sept. 12–14, 2010).

¹²³ See, e.g., *Eaton Corp. v. United States*, 395 F. Supp. 2d 1314, 1319 (Ct. Int’l Trade 2005); *Certain Hardware Logic Emulation Systems & Components Thereof* at 16–17, Inv. No. 337-TA-383, USITC Pub. 3154 (Mar. 31, 1998) (Opinion on Remedy, the Public Interest, and Bonding); INTELLECTUAL PROP. ENFORCEMENT COORDINATOR, 2010 JOINT STRATEGIC PLAN ON INTELLECTUAL PROPERTY ENFORCEMENT 10 (2010); see also Steven E. Adkins & John Evans, “Several Healthy Steps Away”: *New & Improved Products in Section 337 Investigations*, 8 J. MARSHALL REV. INTELL. PROP. L. 309 (2009).

¹²⁴ See McKeon, Whieldon & Pond, *supra* note 122, at 21.

¹²⁵ 19 C.F.R. § 210.79(a) (2010).

¹²⁶ See McKeon, Whieldon & Pond, *supra* note 122, at 20–21; Steven E. Adkins, *US ITC: Use Redesigns to Win at the ITC*, MANAGING INTELL. PROP., Oct. 1, 2010, <http://www.managingip.com/Article/2679363/Supplements/US-ITC-Use-redesigns-to-win-at-the-ITC.html?ArticleId=2679363&supplementListId=78381&p=3>.

litigation in federal district court, of no more than the greater of \$100,000 or twice the domestic value of the violating good for each day that the good is imported into or sold within the United States.¹²⁷ In contrast, the plaintiff in a federal district court case bears the burden of detecting the defendant's violation of an injunction.

By statute, § 337 decisions and federal district court decisions on patent infringement are both appealed exclusively to the Federal Circuit.¹²⁸ Upon the ITC's issuance of an exclusion order, the respondent may petition the Federal Circuit to stay the remedial order, just as a defendant may seek a stay of an injunction issued in federal district court.¹²⁹ In addition, the respondent may petition the ITC to stay the exclusion order under section 705 of the Administrative Procedure Act (APA), which states that, "[w]hen an agency finds that justice so requires, it may postpone the effective date of action taken by it, pending judicial review."¹³⁰ However, the requirements for a stay are generally difficult to establish. The ITC stated in a 2009 decision that, "[i]n determining whether to grant a motion for a stay under section 705 of the APA, the Commission has applied the four-prong test used by courts to determine whether to grant a preliminary injunction."¹³¹ Consequently, in *Certain Semiconductor Chips with Minimized Chip Package Size & Products Containing the Same*, the ITC applied the following four factors in determining whether to grant the stay: "(1) a likelihood of success on the merits of the appeal; (2) irreparable harm to the movant absent a stay; (3) that the issuance of a stay would not substantially harm other parties; and (4) that the public interest favors a stay."¹³² Based on these factors, the ITC denied the respondents' motion to stay a limited exclusion order and a cease-and-desist order pending appeal to the Federal Circuit.¹³³

When reviewing ITC decisions on appeal, the Federal Circuit uses a more deferential standard of review than it does for district court decisions because the APA governs the ITC. The Federal Circuit reviews the ITC's findings of fact supporting its issuance of an exclusion order under the "substantial evidence" standard, which requires "such relevant evidence as a reasonable mind might accept as adequate to support a conclu-

¹²⁷ 19 U.S.C. § 1337(f)(2) (2012).

¹²⁸ *Id.* § 1337(c); 35 U.S.C. § 141 (2012).

¹²⁹ *See, e.g., Jazz Photo Corp. v. U.S. Int'l Trade Comm'n*, 264 F.3d 1094, 1098 (Fed. Cir. 2001) (lifting the stay of a general exclusion order and a cease-and-desist order); *see also* FED. R. APP. P. 8(a).

¹³⁰ 5 U.S.C. § 705 (2012).

¹³¹ *Certain Semiconductor Chips with Minimized Chip Package Size & Prods. Containing the Same*, Inv. No. 337-TA-605, 2009 WL 2350644, at *2 (USITC July 29, 2009) (citing *Standard Havens Prods. Inc. v. Gencor Indus., Inc.*, 897 F.2d 511, 512 (Fed. Cir. 1990)).

¹³² *Id.*

¹³³ *Id.* at *6.

sion.”¹³⁴ However, the Federal Circuit will not disturb the ITC’s interpretation of law unless the ITC’s decision was “arbitrary, capricious, or manifestly contrary to the statute.”¹³⁵ The ITC’s interpretations of § 337 receive *Chevron* deference in the Federal Circuit.¹³⁶ The *Chevron* standard is a two-step process. First, the reviewing court determines “whether Congress has directly spoken to the precise question at issue.”¹³⁷ If so, then the reviewing court (and the agency) “must give effect to the unambiguously expressed intent of Congress.”¹³⁸ Alternatively, if the statute is “silent or ambiguous” on the matter, then the reviewing court determines “whether the agency’s answer is based on a permissible construction of the statute.”¹³⁹ If the statute is silent (or ambiguous) on the matter, then the reviewing court will not disturb the agency’s determination unless it meets the “arbitrary and capricious” standard set forth in section 706 of the APA, which is the highest level of deference that reviewing courts accord to lower decisions.

In contrast, when reviewing federal district court decisions, the Federal Circuit reviews questions of fact for clear error¹⁴⁰ and questions of law under a *de novo* standard of review.¹⁴¹ The Supreme Court’s 1996 decision in *Markman v. Westview Instruments, Inc.* heightened the difference in the Federal Circuit’s standards of review when reviewing issues of claims construction of the ITC and the federal district courts.¹⁴² In *Markman*, the Supreme Court held that the construction of a patent, including interpretation of the language of the patent holder’s claim, is a matter of law to be decided by the judge.¹⁴³ For example, in *Generation II Orthotics Inc. v. Medical Technology Inc.*, the Federal Circuit determined whether the language in a patent that applied to orthopedic braces included dynamic control throughout the range of motion of the brace arm.¹⁴⁴ Because the construction of a patent claim is a matter of law, the

¹³⁴ *Enercon GmbH v. U.S. Int’l Trade Comm’n*, 151 F.3d 1376, 1381 (Fed. Cir. 1998) (quoting *Consol. Edison Co. v. NLRB*, 305 U.S. 197, 229 (1938)).

¹³⁵ *Chevron U.S.A. Inc. v. Nat. Res. Def. Council, Inc.*, 467 U.S. 831, 844 (1984); *see also* Administrative Procedures Act, 5 U.S.C. § 706 (2012).

¹³⁶ *See, e.g.*, *Kyocera Wireless Corp. v. U.S. Int’l Trade Comm’n*, 545 F.3d 1340, 1355 (Fed. Cir. 2008); *Enercon GmbH*, 151 F.3d at 1381.

¹³⁷ *Kyocera*, 545 F.3d at 1355 (quoting *FDA v. Brown & Williamson Tobacco Corp.*, 529 U.S. 120, 132 (2000)).

¹³⁸ *Id.* (quoting *Chevron*, 467 U.S. at 843).

¹³⁹ *Enercon GmbH*, 151 F.3d at 1381 (quoting *Chevron*, 467 U.S. at 843).

¹⁴⁰ *See SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F.3d 1372, 1377 (Fed. Cir. 2007) (citing *Gen-Probe Inc. v. Vysis, Inc.*, 359 F.3d 1376, 1379 (Fed. Cir. 2004)).

¹⁴¹ *See Trading Techs. Int’l, Inc. v. eSpeed, Inc.*, 595 F.3d 1340, 1350 (Fed. Cir. 2010), 142 517 U.S. 370 (1996).

¹⁴³ *Id.* at 372.

¹⁴⁴ 263 F.3d 1356, 1361, 1363 (Fed. Cir. 2001) (construing the claim concerning “joint means in the brace for allowing controlled medial and lateral inclination of each arm relative to the pivotable joint”).

Federal Circuit reviews claims constructions under a *de novo* standard.¹⁴⁵ Thus, the Federal Circuit gives no deference to the decisions of the federal district courts on claims constructions. In the 2010 case *Trading Technologies International v. eSpeed, Inc.*, the Federal Circuit stated that it “requires a review of the district court’s claim construction without the slightest iota of deference.”¹⁴⁶ Thus, on appeal, the Federal Circuit accords considerably more deference to decisions of the ITC than it does to decisions of the federal district courts. “It was the intent of Congress,” the Federal Circuit stated, “that greater weight and finality be accorded to the Commission’s findings as compared with those of the trial court.”¹⁴⁷

IV. EXCLUSION ORDERS FOR SEPs BEFORE AND AFTER PRESIDENT OBAMA’S VETO IN THE APPLE-SAMSUNG DISPUTE

An SEP holder, like any other patent holder, has the right to file a complaint with the ITC for a violation of § 337 of the Tariff Act. However, as of October 2016, the ITC had issued only *one* exclusion order against products that infringed SEPs, and President Obama ultimately vetoed that order.¹⁴⁸ He vetoed that exclusion order largely because of concerns that excluding from importation products that infringe SEPs could enable patent holdup. When he vetoed the ITC’s exclusion order against products found to infringe SEPs, Ambassador Froman explicitly instructed the ITC to examine, in its future public-interest analysis, evidence of patent holdup or patent holdout. However, a detailed analysis of past § 337 investigations shows that, even before President Obama’s veto, the ITC did examine allegations about SEP holders’ opportunism; it found those allegations unsubstantiated and, consequently, insufficient to advise against the issuance of an exclusion order. Following President Obama’s veto, the ALJs’ decisions have included a more detailed analysis of patent holdup and patent holdout. However, even in those investigations, the ALJs have not found such allegations sufficiently persuasive to advise against the issuance of an exclusion order.

A. *Concerns That an Exclusion Order Might Facilitate Holdup*

In 2012, several public agencies began expressing concerns with the issuance of exclusion orders against products that infringe SEPs. In 2012,

¹⁴⁵ *Trading Techs.*, 595 F.3d at 1350.

¹⁴⁶ *Id.* at 1351 (citing *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1451 (Fed. Cir. 1998)).

¹⁴⁷ *Tandon Corp. v. U.S. Int’l Trade Comm’n*, 831 F.2d 1017, 1019 (Fed. Cir. 1987) (citing S. REP. NO. 466, 96th Cong., 1st Sess. 26 (1979)).

¹⁴⁸ Certain Electronic Devices, Including Wireless Communication Devices, Portable Music & Data Processing Devices, & Tablet Computers at 119, Inv. No. 337-TA-794, Pub. 2824 (USITC July 5, 2013) (Final) [hereinafter USITC Inv. No. 337-TA-794 Final].

in a statement of public interest submitted in *Certain Wireless Communication Devices, Portable Music and Data Processing Devices, Computers and Components Thereof*, the Federal Trade Commission (FTC) said that the issuance of an exclusion order might facilitate patent holdup.¹⁴⁹ The FTC claimed that a patent holder could “seek an exclusion order for infringement of the [F]RAND-encumbered SEP as a way of securing royalties that may be inconsistent with that [F]RAND commitment.”¹⁵⁰ The FTC opined that holdup, as well as the mere threat of holdup, would harm consumers by deterring innovation and reducing the value of standard-setting activities.¹⁵¹ To mitigate that harm, the FTC stated that the ITC “could find that Section 337’s public-interest factors support denial of an exclusion order” unless the SEP holder had made a reasonable license offer to the potential licensee.¹⁵²

In January 2013, the Antitrust Division of the Department of Justice (DOJ) and the U.S. Patent and Trademark Office (USPTO)—despite having no authority over the ITC’s decision to grant an exclusion order—submitted a joint policy statement expressing concerns similar to those that the FTC raised in its public-interest statement.¹⁵³ The Antitrust Division and the USPTO said that an SEP holder might use the threat of an exclusion order “to pressure an implementer . . . to accept more onerous licensing terms than the patent holder would be entitled to receive consistent with the F/RAND commitment.”¹⁵⁴ They argued that, in such circumstances, an exclusion order “may harm competition and consumers by degrading one of the tools [that standard-setting organizations] employ to mitigate the threat of such opportunistic action.”¹⁵⁵ The Antitrust Division and the USPTO suggested that, if the SEP holder is attempting to engage in patent holdup, the ITC might conclude that the public-interest factors advise against an exclusion order.¹⁵⁶ They also suggested that, in some circumstances, the ITC might find it appropriate to delay the effective date of an exclusion order “to provide parties the opportunity to conclude a F/RAND license.”¹⁵⁷

¹⁴⁹ Third Party U.S. Fed. Trade Comm’n’s Statement on the Public Interest, *Certain Wireless Communication Devices, Portable Music & Data Processing Devices, Computers & Components Thereof*, Inv. No. 337-TA-745, Doc. No. 482234 (June 6, 2012).

¹⁵⁰ *Id.* at 1.

¹⁵¹ *Id.* at 3.

¹⁵² *Id.* at 4.

¹⁵³ U.S. DEP’T OF JUSTICE & U.S. PATENT & TRADEMARK OFFICE, POLICY STATEMENT ON REMEDIES FOR STANDARDS-ESSENTIAL PATENTS SUBJECT TO VOLUNTARY F/RAND COMMITMENTS 7–8 (2013) [hereinafter DOJ & USPTO POLICY STATEMENT], http://www.uspto.gov/about/offices/ogc/Final_DOJ-PTO_Policy_Statement_on_FRAND_SEPs_1-8-13.pdf.

¹⁵⁴ *Id.* at 6.

¹⁵⁵ *Id.*

¹⁵⁶ *Id.* at 10.

¹⁵⁷ *Id.*

The Antitrust Division and the USPTO emphasized, nonetheless, that their policy statement should not be construed as advising that § 337's public-interest factors would counsel against the issuance of an exclusion order in every case involving SEPs.¹⁵⁸ They recognized that an exclusion order might be appropriate in some circumstances—for example, when “the putative licensee is unable or refuses to take a F/RAND license and is acting outside the scope of the patent holder’s commitment to license on F/RAND terms.”¹⁵⁹ The licensee’s refusal could take the form of “a constructive refusal to negotiate”¹⁶⁰—that is, the licensee’s insistence on terms that are clearly outside the bounds of “what could reasonably be considered to be F/RAND terms in an attempt to evade the putative licensee’s obligation to fairly compensate the patent holder.”¹⁶¹ The Antitrust Division and the USPTO also suggested that an exclusion order might be warranted “if a putative licensee is not subject to the jurisdiction of a court that could award damages.”¹⁶²

In sum, the FTC, the Antitrust Division, and the USPTO have all proposed that mitigating the risk of patent holdup requires that the ITC limit the availability of exclusion orders in investigations concerning SEP-infringing products.

B. *The ITC’s Decisions Before President Obama’s Veto*

The ITC has considered allegations of the SEP holder’s opportunistic behavior in several investigations that preceded President Obama’s veto. The ITC typically examined those allegations under § 337(c)—also called the “all defenses” provision¹⁶³—which, as explained in Part I.D, affords the respondent the opportunity to present all legal and equitable defenses during the ITC’s determination of whether the respondent has violated § 337.¹⁶⁴ However, the ITC has found the respondent’s FRAND defenses insufficient to preclude the finding of a § 337 violation.

In 2012, for example, in *Certain Wireless Communication Devices, Portable Music and Data Processing Devices, Computers and Components Thereof*, the ITC considered whether the patent holder’s alleged failure to comply with the standard-setting organization’s (SSO’s) rules—specifically, the patent holder’s duty to disclose the patents that might be essential to practice a standard—rendered the asserted SEPs

¹⁵⁸ *Id.* at 7.

¹⁵⁹ *Id.*

¹⁶⁰ *Id.*

¹⁶¹ *Id.*

¹⁶² *Id.*

¹⁶³ *See, e.g.,* *VastFame Camera, Ltd. v. Int’l Trade Comm’n*, 386 F.3d 1108, 1115–16 (Fed. Cir. 2004).

¹⁶⁴ 19 U.S.C. § 1337(c) (2012).

unenforceable.¹⁶⁵ Apple, the respondent, claimed that the failure of the complainant, Motorola, to disclose its SEPs during the standardization process rendered those SEPs unenforceable under the doctrine of unclean hands, which allows the court to deny relief if the patent holder's conduct is particularly egregious.¹⁶⁶

Judge Thomas Pender found that Apple's defense did not preclude the finding of a § 337 violation. He said that, "to succeed in an unclean hands claim, a plaintiff is required to show that the defendant has engaged in particularly egregious conduct."¹⁶⁷ He emphasized that "it is not enough merely to show misconduct."¹⁶⁸ However, Judge Pender found that there was no evidence that Motorola had a duty to disclose its SEPs.¹⁶⁹ He also observed that, even if Apple had provided probative evidence of Motorola's obligation to disclose its SEPs, such evidence would not have sustained Apple's unclean hands defense, because there was no evidence that "Motorola's behavior was a plan to act in bad faith."¹⁷⁰ He said that, at most, Motorola "made an administrative oversight" in not disclosing its patents in a timely manner.¹⁷¹ Judge Pender emphasized that it would be inappropriate to "refuse to enforce a patent because a party . . . failed to timely comply with a disclosure requirement," even though that party agreed to offer those SEPs on FRAND terms.¹⁷² Judge Pender concluded that Motorola's conduct was not so inequitable as to deprive it of its right to enforce its SEPs and consequently preclude the finding of a § 337 violation.¹⁷³ Although the ITC determined that the products did not infringe a valid patent and thus issued no remedy against the respondent's products, Judge Pender's reasoning showed that alleging that the SEP holder had violated the SSO's rules would not necessarily render the asserted SEPs unenforceable.¹⁷⁴

¹⁶⁵ Certain Wireless Communication Devices, Portable Music & Data Processing Devices, Computers & Components Thereof at 142–52, Inv. No. 337-TA-745, Doc. No. 480415 (Apr. 24, 2012) (Initial) [hereinafter USITC Inv. No. 337-TA-745 Initial Determination].

¹⁶⁶ *Id.* at 142.

¹⁶⁷ *Id.* at 22 (quoting *Serdarevic v. Advanced Med. Optics, Inc.*, 532 F.3d 1352, 1361 (Fed. Cir. 2008) (internal quotation marks omitted)).

¹⁶⁸ *Id.* (quoting *Serdarevic v. Advanced Med. Optics, Inc.*, 532 F.3d 1352, 1361 (Fed. Cir. 2008) (internal quotation marks omitted)).

¹⁶⁹ *Id.* Judge Pender observed that the record contained no ETSI documents relevant to the requirement to disclose the existence of the patents dated before 2008. Because the relevant patents were filed in 2001 and earlier, and declared to ETSI in 2002, Judge Pender determined that ETSI's disclosure policies that Apple had presented to the ITC did not apply to the relevant patents. *Id.* at 148–51.

¹⁷⁰ *Id.* at 150.

¹⁷¹ *Id.*

¹⁷² *Id.* at 151–52.

¹⁷³ *Id.*

¹⁷⁴ *Id.* at 142–52.

The ITC in 2013 again examined a claim about the SEP holder's failure to comply with the FRAND obligation in *Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers*.¹⁷⁵ Following a complaint filed by Samsung, the ITC investigated whether Apple's iPhone, iPad, and iPod Touch devices infringed several of Samsung's SEPs. Apple argued, among other things, that, by making a FRAND commitment, Samsung forfeited any right that it would otherwise have to obtain an exclusion order or a cease-and-desist order.¹⁷⁶

However, the ITC again found Apple's defense unpersuasive.¹⁷⁷ The ITC found that Apple had failed to show that Samsung breached its obligations arising from a FRAND commitment.¹⁷⁸ The ITC emphasized that a FRAND commitment does not per se preclude the finding of a § 337 violation.¹⁷⁹ The ITC also said that, before "a party can prove a breach of an alleged FRAND obligation, it must prove what the obligation is."¹⁸⁰ However, the ITC found that Apple had failed to provide an adequate interpretation of the FRAND commitment.¹⁸¹ The ITC added that the essentiality of the patent to practice the standard appeared to be a condition precedent to Samsung's obligations arising from a FRAND commitment.¹⁸² The ITC noted that, although the respondent and the SEP holder contested the essentiality of the asserted patents, they did not provide any evidence as to whether the patents were actually essential to practice the standard.¹⁸³ The ITC found that, in the absence of such a determination, it was not clear whether Samsung had any obligations arising from its FRAND commitment, because it was not clear whether Samsung's asserted patents were actually standard-essential.¹⁸⁴ In addition, the ITC observed that, even if one were to assume that the FRAND commitment imposed an "enforceable obligation," Samsung's commitment appeared to be only an "agreement to agree," which imposed on Samsung only a duty to negotiate in good faith.¹⁸⁵ However, the ITC reviewed the negotiation history between the parties and found that Ap-

¹⁷⁵ USITC Inv. No. 337-TA-794 Final, *supra* note 148.

¹⁷⁶ *Id.* at 41.

¹⁷⁷ *Id.* at 44.

¹⁷⁸ *Id.*

¹⁷⁹ *Id.* at 46 (citing *Certain Mobile Telephone Handsets, Wireless Communication Devices, & Components Thereof* at 34, Inv. No. 337-TA-578, Pub. 4132 (USITC Feb. 20, 2007) (Initial Determination)).

¹⁸⁰ *Id.* at 48.

¹⁸¹ *Id.*

¹⁸² *Id.* at 50.

¹⁸³ *Id.* at 50–51.

¹⁸⁴ *Id.* at 51.

¹⁸⁵ *Id.* at 52 (quoting *North Star Steel Co. v. United States*, 477 F.3d 1324, 1332 (Fed. Cir. 2007)).

ple provided no evidence that Samsung had failed to negotiate in good faith.¹⁸⁶ The ITC determined that Apple had failed to show that Samsung violated its FRAND commitment.¹⁸⁷ It thus concluded that Apple's affirmative defense based on Samsung's FRAND commitment did not preclude the finding of a § 337 violation.¹⁸⁸

In addition, the ITC examined in that case the risk of patent holdup in its analysis of the public interest. The ITC acknowledged that some commentators argued that it was "*per se* prohibited and contrary to the public-interest considerations of section 337" to issue an exclusion order against products that infringe FRAND-committed SEPs.¹⁸⁹ However, the ITC disagreed.¹⁹⁰ Although the ITC acknowledged the arguments of Apple and other public commentators that an exclusion order against Apple's infringing products would facilitate patent holdup,¹⁹¹ the ITC noted that other commentators had claimed the exact opposite—that is, that denying exclusion orders to SEP holders would give defendants an incentive to engage in "reverse holdup."¹⁹² The ITC emphasized that "none of the parties or commentators submitted *any* evidence that either result has actually occurred in the market."¹⁹³ The ITC added that, "[a]bsent empirical evidence of actual harm to consumers or innovation," concerns of patent holdup were "policy arguments" that had no place in the public-interest factors listed in § 337.¹⁹⁴ The ITC ultimately issued an exclusion order and a cease-and-desist order against Apple's products that infringed the asserted SEPs.¹⁹⁵

¹⁸⁶ *Id.* at 59.

¹⁸⁷ *Id.*

¹⁸⁸ *Id.* at 45, 52, 63.

¹⁸⁹ *Id.* at 111. For an example of a comment submitted to the ITC alleging the potential for patent holdup, see Respondent Apple Inc.'s Written Submission Regarding the Commission's Questions on the Issues Under Review, and on Remedy, Bonding, and the Public Interest at 7, Inv. No. 337-TA-794, Doc. No. 498403 (Dec. 3, 2012) ("[I]f FRAND patent holders could obtain ITC exclusion orders, then every holder of any standard-essential patent—and for ETSI standards, there are thousands of declared-essential patents, held by dozens of companies—could threaten standards implementers with the prospect of not being able to import any standards-compliant products into the United States market." (emphasis omitted) (internal citation omitted)).

¹⁹⁰ USITC Inv. No. 337-TA-794 Final, *supra* note 148, at 111.

¹⁹¹ *Id.* at 113 n.23.

¹⁹² *Id.* For an example of a comment submitted to the ITC alleging the potential for "reverse holdup," see Motorola Mobility LLC's Submission In Response to the Commission's Request for Submissions on the Public Interest at 13, Inv. No. 337-TA-794, Doc. No. 498346 (Dec. 3, 2012) ("The creation of a categorical rule that a patent holder cannot obtain an injunction (including an exclusion order) for a FRAND-committed patent would encourage infringers to 'hold out,' rather than voluntarily negotiate a license, knowing that they would not be subject to any ban on the importation of infringing articles.").

¹⁹³ USITC Inv. No. 337-TA-794 Final, *supra* note 148, at 113–14 n.23 (emphasis added).

¹⁹⁴ *Id.*

¹⁹⁵ *Id.* at 105.

In sum, in its § 337 investigations, the ITC considered allegations of the SEP holder's failure to comply with its FRAND commitment and the risk of patent holdup. The ITC considers allegations concerning the FRAND commitment within the "all defenses" provisions—that is, in determining whether the SEP holder's FRAND commitment and the SEP holder's conduct rendered the asserted SEPs unenforceable. However, in none of its investigations has the ITC found the respondent's defenses sufficiently persuasive to preclude the finding of a § 337 violation. The ITC has also examined concerns about patent holdup within its public-interest analysis, but, because of the absence of any empirical evidence, the ITC refused to conclude that the risk of patent holdup weighed against the issuance of an exclusion order.

C. *President Obama's Veto*

In August 2013, President Obama, acting through U.S. Trade Representative Michael Froman, vetoed the exclusion order that the ITC had issued against Apple on the grounds that the exclusion order would not serve the public interest.¹⁹⁶ In doing so, Ambassador Froman approvingly recited the Antitrust Division's and the USPTO's concerns about patent holdup and patent holdout.¹⁹⁷ He emphasized that an exclusion order should be available to an SEP holder only in exceptional circumstances, such as those that the Antitrust Division and USPTO had outlined in their policy statement.¹⁹⁸

Ambassador Froman found that, in this specific investigation, an exclusion order against Apple would adversely affect the U.S. economy's competitive conditions and consumers.¹⁹⁹ Unfortunately, Ambassador Froman's letter provided little explanation for his disapproval. Ambassador Froman did not examine whether Samsung made a FRAND offer, whether Apple failed to accept a FRAND offer, or whether Apple was acting outside the scope of the FRAND commitment and was thus engaging in a constructive refusal to negotiate.²⁰⁰ Ambassador Froman provided no explanation as to how the ITC had erred in examining evidence of patent holdup. He simply said that, "although the parties dispute the facts vigorously, it is beyond the scope of this policy review to revisit the Commission's legal analysis or its finding based on its record."²⁰¹

Ambassador Froman instructed that, in future investigations involving FRAND-committed SEPs, the ITC should (1) "examine thoroughly

¹⁹⁶ Ambassador Froman's Letter, *supra* note 6.

¹⁹⁷ *Id.* at 2.

¹⁹⁸ For a detailed analysis of the suggestions presented in the policy statement, see Part II.A.

¹⁹⁹ Ambassador Froman's Letter, *supra* note 6, at 1–3.

²⁰⁰ *Id.*

²⁰¹ *Id.* at 3.

and carefully on its own initiative the public-interest issues presented both at the outset of its proceeding and when determining whether a particular remedy is in the public interest,” and (2) “seek proactively to have the parties develop a comprehensive factual record . . . including information on the standard-essential nature of the patent at issue and . . . the presence or absence of patent hold-up or reverse hold-up.”²⁰² He said that he would analyze those elements when reviewing future ITC decisions. However, the ITC *did* examine allegations of the SEP holder’s failure to comply with the FRAND commitment and of patent holdup in past investigations.²⁰³ Ambassador Froman did not say how the ITC should change its analysis in light of his instructions.

D. The Availability of an Exclusion Order After President Obama’s Veto

After President Obama’s veto, the presiding ALJ in several investigations examined whether to issue an exclusion order against products that infringed FRAND-committed SEPs. However, in none of those investigations did the ALJ find the presented evidence sufficiently persuasive to advise against the ITC’s issuance of an exclusion order.

1. Certain Wireless Devices with 3G and/or 4G Capabilities and Components Thereof

In June 2014, in *Certain Wireless Devices with 3G and/or 4G Capabilities and Components Thereof*, Administrative Law Judge Theodore Essex examined whether the ITC should issue an exclusion order against smartphones that allegedly infringed InterDigital’s patents essential to the mobile communication standards.²⁰⁴ Judge Essex found that the respondents’ products did not infringe the asserted patents and, consequently, he determined that there was no violation of § 337.²⁰⁵ Nonetheless, he analyzed whether InterDigital had violated the obligations of the FRAND commitment that it made to the European Telecommunications Standards Institute (ETSI), and whether there was evidence of patent holdup, if (contrary to Judge Essex’s conclusion) the ITC were to find the alleged patents infringed. Judge Essex’s discussion of FRAND-related issues preceded his analysis of the public interest, which suggests that he considered the respondents’ FRAND-related arguments to be a defense against the complainant’s allegations of a § 337 violation.

²⁰² *Id.*

²⁰³ See *supra* Part IV.B.

²⁰⁴ Certain Wireless Devices with 3G and/or 4G Capabilities & Components Thereof, Inv. No. 337-TA-868, Pub. 2929, 2014 WL 2965327 (USITC June 13, 2014) (Initial).

²⁰⁵ *Id.* at *109.

Judge Essex first asked whether the asserted patents were subject to a FRAND commitment. He found that, because the respondents did not infringe the asserted patents, the patents were necessarily inessential to practicing the standard and thus were outside the FRAND commitment.²⁰⁶ Assuming (contrary to this finding) that the patents were essential, Judge Essex next analyzed InterDigital's FRAND obligations.

Judge Essex observed that InterDigital's obligations toward potential standard implementers derived from its licensing declaration to ETSI and other ETSI rules. He found that ETSI's Rules of Procedure were not a contract, but merely rules to "guide [ETSI and its members] in their interactions with the organization, other members and third parties."²⁰⁷ He also found that ETSI's rules imposed obligations both on the SEP holder and on the implementers of ETSI's standards,²⁰⁸ and he found that the respondents had not performed any of the duties that ETSI's rules imposed on them as implementers.²⁰⁹ For example, Judge Essex noted that ETSI's procedural rules provide mechanisms for resolving disputes in which the SEP holder "refus[es] to grant a license on FRAND terms."²¹⁰ However, he found that none of the respondents had availed themselves of such dispute-resolution mechanisms.²¹¹ Judge Essex also found that although ETSI's rules required implementers to contact the SEP holder and obtain a license, the respondents had failed to do so.²¹² He further found that, although ETSI's rule imposed a duty to negotiate in good faith, it did not bar participants from using legal remedies when their rights had been violated.²¹³ Because he found no evidence that InterDigital had violated its contractual obligations or had negotiated the license in bad faith, Judge Essex rejected the respondents' allegation that InterDigital had failed to comply with its FRAND commitment.²¹⁴

Judge Essex also analyzed evidence of patent holdup and patent holdout. He acknowledged the concern over patent holdup that the FTC, the DOJ, and the USPTO had expressed in their various policy statements, but he found that, in the specific case at hand, there was no evidence that InterDigital had attempted to hold up the respondents.²¹⁵ Judge Essex said that, "[w]hile there may be a hypothetical risk of holdup, we have evidence that it is not a threat in this case, or in this

²⁰⁶ *Id.* at *74.

²⁰⁷ *Id.* at *75.

²⁰⁸ *Id.* at *79.

²⁰⁹ *Id.* at *80.

²¹⁰ *Id.* at *77.

²¹¹ *Id.*

²¹² *Id.*

²¹³ *Id.* at *80–81.

²¹⁴ *Id.*

²¹⁵ *Id.* at *81.

industry.”²¹⁶ He opposed denying an exclusion order merely on the basis of “a speculative and unproven position . . . without proof that the harm . . . exists.”²¹⁷ The ITC, however, mooted Judge Essex’s analysis of patent holdup when, in reviewing his initial determination, it affirmed Judge Essex’s finding that none of the respondents infringed InterDigital’s patents, such that no exclusion order was available.²¹⁸

2. Certain 3G Mobile Handsets and Components Thereof

In April 2015, in *Certain 3G Mobile Handsets and Components Thereof*, Judge Essex again examined the availability of an exclusion order against products that infringed FRAND-committed SEPs.²¹⁹ InterDigital, the SEP holder, sought an exclusion order against Nokia’s and Microsoft Mobile’s products that allegedly infringed InterDigital’s SEPs. In remanding the initial determination, the Commission specifically required Judge Essex to examine evidence of patent holdup and patent holdout.²²⁰ In his initial determination on remand, Judge Essex examined FRAND-related arguments similar to the ones that he analyzed in *Certain Wireless Devices with 3G and/or 4G Capabilities*. On this occasion, however, he included a discussion of FRAND obligations in the public-interest analysis.

Judge Essex rejected the allegations that InterDigital had breached its FRAND obligations.²²¹ Although he again found the asserted patents to be inessential to practicing the standard (and thus outside InterDigital’s FRAND commitment),²²² he analyzed whether there was evidence that InterDigital had violated its FRAND obligations in the hypothetical (counterfactual) scenario in which InterDigital’s patents *were* essential.²²³ Judge Essex found no evidence that InterDigital had acted in bad faith or “refus[ed] to work towards a FRAND license.”²²⁴ He observed that no court had ever determined whether InterDigital’s offers were FRAND.²²⁵ He added that, even under the assumption that InterDigital’s offers were not FRAND, courts have said that the SEP holder’s initial offer does need not to be FRAND, “so long as a [F]RAND license even-

²¹⁶ *Id.*

²¹⁷ *Id.* at *83.

²¹⁸ *Certain Wireless Devices with 3G and/or 4G Capabilities & Components Thereof* at 14, Inv. No. 337-TA-868, Doc. No. 541147 (USITC Aug. 28, 2014) (Final).

²¹⁹ *Certain 3G Mobile Handsets and Components Thereof*, Inv. No. 337-TA-613, 2015 WL 6561709 (USITC Apr. 27, 2015) (Initial Determination on Remand).

²²⁰ *See, e.g., Certain 3G Mobile Handsets and Components Thereof* at 5, Inv. No. 337-TA-613 (USITC Mar. 24, 2014) (Commission Determination to Remand Investigation).

²²¹ *Certain 3G Mobile Handsets and Components Thereof*, 2015 WL 6561709, at *16–20.

²²² *Id.* at *17–18.

²²³ *Id.* at *18–20.

²²⁴ *Id.* at *23.

²²⁵ *Id.* at *19.

tually issues.”²²⁶ Judge Essex said that InterDigital’s act of making an offer showed that it was trying to reach a licensing agreement with the respondents.²²⁷ He thus concluded that the factual record did not support the conclusion that InterDigital violated its FRAND obligations.

Judge Essex also examined whether there was any evidence of patent holdup or patent holdout. He emphasized that, in *Ericsson v. D-Link*, the Federal Circuit said that the infringer bears the burden of providing evidence of patent holdup.²²⁸ Judge Essex found that respondents had “fail[ed] to carry that burden,”²²⁹ because they “simply restate[d] the possibility of a hold-up, without providing or citing to any evidence.”²³⁰ In addition, he found that the respondents had engaged in patent holdout.²³¹ Because the specific facts of the case suggested that opportunism by the respondents was more likely than opportunism by the SEP holder, Judge Essex concluded that the presented evidence did not advise against the ITC’s issuance of an exclusion order.²³² However, the ITC ultimately concluded that Nokia and Microsoft Mobile did not infringe the asserted claims of InterDigital’s SEPs; thus, the Commission mooted consideration of the relevance of the FRAND obligation to the issuance of an exclusion order.²³³

3. Certain Wireless Standard Compliant Electronic Devices, Including Communication Devices and Tablet Computers

In November 2015, Judge Dee Lord addressed a similar question in *Certain Wireless Standard Compliant Electronic Devices, Including Communication Devices and Tablet Computers*.²³⁴ Ericsson, the complainant, moved to compel discovery of documents relevant to determining whether Ericsson had made a FRAND offer to the respondent.²³⁵ Ericsson argued that such evidence would become essential in the public-interest analysis when the ALJ would be asked to determine whether Ericsson had attempted to hold up the respondent.²³⁶ However,

²²⁶ *Id.* at *20.

²²⁷ *Id.*

²²⁸ *Id.* at *20–21 (citing *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1234 (Fed. Cir. 2014)).

²²⁹ *Id.* at *21.

²³⁰ *Id.* at *14.

²³¹ *Id.* at *26.

²³² *Id.* at *23.

²³³ *Certain 3G Mobile Handsets & Components Thereof* at 44, 46, 50, Inv. No. 337-TA-613, Pub. 4145 (USITC Sept. 21, 2015) (Final) [hereinafter *USITC Inv. No. 337-TA-613 Final*].

²³⁴ *Certain Wireless Standard Compliant Electronic Devices, Including Communication Devices & Table Computers*, Inv. No. 337-TA-953, 2015 WL 9875533 (USITC Nov. 10, 2015) (Order Granting-in-Part and Denying-in-Part Complainant’s Motion to Compel).

²³⁵ *Id.* at *1.

²³⁶ *Id.* at *2.

Judge Lord denied Ericsson's motion on the ground that the ITC "has never held that disputes over FRAND pricing must be considered either in deciding whether there is a violation [of § 337] *or* in the public interest/remedy phase of section 337 proceedings."²³⁷ Judge Lord added that, "[t]o the extent the ITC's views differ from those of the U.S. Trade Representative, [an ALJ's] duty is to follow the policy of the ITC."²³⁸ She said that it would be inappropriate to compel such a "massive discovery" with the purpose of determining a contractual dispute arising from Ericsson's FRAND obligations.²³⁹

Judge Lord emphasized that no party had presented a "legal argument or authority to establish that the existence of a FRAND offer is pertinent to the determination of whether there is a violation of section 337."²⁴⁰ She said that Ericsson's compliance with the FRAND commitment was a question of contract law that required resolution in district court.²⁴¹ Judge Lord emphasized that the ITC has no "authority" to adjudicate contract disputes.²⁴² She accepted the argument that the purpose of a FRAND commitment might be to avoid patent holdup.²⁴³ However, Judge Lord emphasized that, regardless of the purpose of a FRAND commitment, an ALJ does not have the jurisdiction to enforce an SSO's rules.²⁴⁴ She emphasized that an ALJ can examine those rules "only to the extent that they relate to [a] viable affirmative defense[]."²⁴⁵ Judge Lord thus concluded that Ericsson's compliance with its FRAND commitment was irrelevant to determining whether a violation of § 337 had occurred.

Judge Lord also said that examining Ericsson's compliance with the FRAND commitment would exceed the ITC's statutory authority to analyze the public interest.²⁴⁶ She said that the statutorily enumerated public-interest factors that an ALJ must consider before issuing an exclusion order do not include as a factor the complainant's compliance with its FRAND obligations.²⁴⁷ Judge Lord said that the ITC "can take into consideration matters that, ultimately, it does not act upon."²⁴⁸ She added that the ITC "may wish to consider whether it should withhold or modify

²³⁷ *Id.* (emphasis in original) (citing USITC Inv. No. 337-TA-794 Final, *supra* note 148, at 45–52).

²³⁸ *Id.* at *2 n.1.

²³⁹ *Id.* at *2.

²⁴⁰ *Id.* at *3.

²⁴¹ *Id.* at *2.

²⁴² *Id.* at *2–3.

²⁴³ *Id.* at *3.

²⁴⁴ *Id.*

²⁴⁵ *Id.*

²⁴⁶ *Id.* at *3–4.

²⁴⁷ *Id.* at *4.

²⁴⁸ *Id.*

the statutory remedies in cases involving [SEPs].”²⁴⁹ Judge Lord also said that the ITC might consider “judicial rulings on counterclaims as part of the . . . consideration of the effect of a remedial order on the public interest.”²⁵⁰ This statement suggests that a respondent could present to the ITC a court ruling finding that the SEP holder breached its FRAND obligation, and that the ITC could consider a district court’s decision when determining whether to issue an exclusion order. Judge Lord nonetheless concluded that she would not permit burdensome discovery that would seek only to resolve a private contractual dispute.²⁵¹

4. Summation

After President Obama’s veto in 2013 in the Apple-Samsung dispute, some ALJs at the ITC have included in their initial determinations an examination of (1) the patent’s essentiality, (2) the SEP holder’s compliance with its FRAND commitment, and (3) evidence of patent holdup or patent holdout. However, at least one ALJ has declined to compel discovery of documents necessary to analyze the complainant’s compliance with its FRAND commitment. Although it remains to be seen whether the ITC will ever again issue an exclusion order against an article infringing SEPs, the reasoning of several ALJs suggests that unsupported allegations of patent holdup, or of the SEP holder’s failure to comply with its FRAND commitment, are insufficient to advise the Commission against issuing an exclusion order.

V. FRAND-COMMITTED SEPs AND THE PUBLIC-INTEREST ANALYSIS

Ambassador Froman instructed the ITC to examine “thoroughly and carefully the public-interest issues” when determining whether to issue an exclusion order in an investigation concerning FRAND-committed SEPs.²⁵² He said that the ITC should develop a “factual record” related to the public-interest analysis, including information about the patent’s essentiality and about the presence or absence of patent holdup and patent holdout.²⁵³ However, Ambassador Froman did not explain what evidence the ITC should examine to determine whether patent holdup has occurred in a particular case or whether a patent is actually essential to practice a standard. In this part, I examine the economic evidence that should inform the ITC’s decision, and the burden of proof that each party bears in presenting that evidence.

²⁴⁹ *Id.*

²⁵⁰ *Id.* (quoting 59 Fed. Reg. 67,622 (Dec. 30, 1994)).

²⁵¹ *Id.*

²⁵² Ambassador Froman’s Letter, *supra* note 6, at 3.

²⁵³ *Id.*

A. *Evidence of Patent Holdup*

When evaluating allegations of patent holdup, the ITC should determine whether the SEP holder has extended to the respondent a FRAND offer. Because patent holdup is defined as the SEP holder's attempt to obtain compensation above the FRAND range, finding that the SEP holder has extended a FRAND offer supports the conclusion that no patent holdup has occurred in that particular case. Only when the parties have not exchanged any licensing offers should the ITC examine the SEP holder's conduct in negotiating the license terms with the respondent to determine whether the SEP holder has attempted to hold up the respondent.

1. Has the SEP Holder Made a FRAND Offer?

Patent holdup, as defined by the FTC, the Antitrust Division, and the USPTO, is an SEP holder's attempt to extract a royalty for its SEPs that exceeds the FRAND range.²⁵⁴ When the SEP holder has offered the respondent a FRAND license, by definition, there is no patent holdup. Indeed, the question of whether the SEP holder's offer is within the FRAND range is a factual inquiry that requires analysis of economic evidence to establish the bounds of that range.²⁵⁵ The ITC cannot accept unsupported assertions that the SEP holder's offer is within or outside the FRAND range. Instead, it should require the parties to provide economic evidence to support their respective assertions.

The ITC might use various economic methodologies to determine the FRAND range and whether the SEP holder's offer is within that range.²⁵⁶ If available, comparable license agreements—license agreements made in sufficiently comparable circumstances—are typically the most reliable economic evidence to establish a FRAND range.²⁵⁷ Evidence that the SEP holder's offer is consistent with the terms of the com-

²⁵⁴ See, e.g., Third Party U.S. Federal Trade Commission's Statement on the Public Interest at 1, Inv. No. 337-TA-745, Doc. No. 482234 (USITC June 6, 2012) (explaining that an SEP holder could seek an exclusion order "as a way of securing royalties . . . inconsistent with that RAND commitment"); DOJ & USPTO POLICY STATEMENT, *supra* note 153, at 6 (explaining that an exclusion order could allow the SEP holder to pressure a potential licensee to accept "more onerous licensing terms than the patent holder would be entitled to receive consistent with the F/RAND commitment").

²⁵⁵ For an analysis of the factors that influence the bargaining range over which a patent holder and a licensee negotiate to determine a reasonable royalty for the use of a patented technology, see J. Gregory Sidak, *Bargaining Power and Patent Damages*, 19 STAN. TECH. L. REV. 1 (2015).

²⁵⁶ For a survey of various economic methodologies to calculate a FRAND royalty, see J. Gregory Sidak, *The Meaning of FRAND, Part I: Royalties*, 9 J. COMPETITION L. & ECON. 931, 1000 (2013).

²⁵⁷ See J. Gregory Sidak, *Apportionment, FRAND Royalties, and Comparable Licenses After Ericsson v. D-Link*, 2016 U. ILL. L. REV. 1809, 1821–22.

parable license agreements supports the conclusion that the offer is FRAND. If the SEP holder has made an offer to the respondent that is within the FRAND range, the ITC should reject any allegation of patent holdup. The respondent's reason for rejecting the SEP holder's FRAND offer is not relevant to the ITC's analysis of patent holdup.

Conversely, evidence that the SEP holder's offer departs significantly from the licensing terms specified in comparable license agreements supports the conclusion that the SEP holder's offer is outside the FRAND range. Finding that the SEP holder's offer exceeds the FRAND range would support the conclusion that the SEP holder has attempted to hold up the respondent. Some U.S. courts have said that a FRAND commitment does not require that the SEP holder's opening offer be within the FRAND range. For example, in *Microsoft v. Motorola*, Judge James Robart said that, "under Motorola's agreements with the IEEE and the ITU, Motorola need not make initial offers on [F]RAND terms" as long as the ultimate license agreement is within the FRAND range.²⁵⁸ However, such an approach is misguided because it ignores that, in the context of SEPs, time is of the essence.²⁵⁹ To ensure the expeditious implementation of the standard, the SEP holder's first offer should be within the FRAND range. However, even assuming that an SEP holder might have the right to make an initial offer outside the FRAND range, the SEP holder should typically be restrained from seeking an injunction or an exclusion order before making an offer within the FRAND range. Therefore, evidence that the SEP holder's offer exceeds the FRAND range should support the conclusion that the SEP holder has attempted to hold up the respondent, and such evidence should weigh against the ITC's issuance of an exclusion order.

2. Has the SEP Holder Taken the Necessary Steps to Make a FRAND Offer?

A respondent might allege that the SEP holder is also attempting to engage in patent holdup if the SEP holder and the respondent have not exchanged any licensing offers. However, the SEP holder's failure to make an offer is not necessarily evidence of patent holdup. As the Anti-trust Division and the USPTO have emphasized, there is no patent holdup when the potential licensee has constructively refused to negotiate.²⁶⁰ It is possible, for example, that the respondent refuses to communicate with the SEP holder or that the respondent refuses to sign a nondisclosure agreement with the SEP holder that would enable the ex-

²⁵⁸ 864 F. Supp. 2d 1023, 1038 (W.D. Wash. 2012).

²⁵⁹ J. Gregory Sidak, *The Meaning of FRAND, Part II: Injunctions*, 11 J. COMPETITION L. & ECON. 201, 243 (2015) (internal citations omitted).

²⁶⁰ DOJ & USPTO POLICY STATEMENT, *supra* note 153, at 7.

change of information necessary to make an offer.²⁶¹ Such conduct precludes any negotiation between the SEP holder and the respondent concerning the specific terms of a license agreement. In such circumstances, it would be incorrect to conclude that the SEP holder has attempted to hold up the respondent.

If the SEP holder has not extended any offer to the respondent, the ITC should examine the SEP holder's conduct during the licensing negotiations to determine whether patent holdup has occurred in that particular case. Specifically, the ITC should determine whether (1) the SEP holder has notified the respondent about the respondent's alleged infringement and (2) the SEP holder has taken the necessary steps to initiate negotiations. The ITC might consider evidence concerning industry norms and licensing practices in determining whether the SEP holder has made the necessary steps to initiate a negotiation with the respondent. Evidence that the SEP holder has taken such steps would support the conclusion that the SEP holder has not attempted to hold up the respondent.

B. *The Burden of Proof*

Ambassador Froman's instructions concerning evidence of patent holdup and patent holdout has sparked debate among academics and practitioners regarding which party should bear the burden of proving whether patent holdup or patent holdout has occurred in a particular case.²⁶² For example, in 2015, Chairwoman Edith Ramirez of the Federal Trade Commission submitted a written statement in *Certain 3G Mobile Handsets* in which she proposed that the ITC should "require a[n] SEP holder to prove that the implementer is unwilling or unable to take a FRAND license."²⁶³ She suggested that the SEP holder "may demonstrate an implementer's unwillingness in a number of ways"²⁶⁴—for example, by showing that the potential licensee is unwilling to negotiate or

²⁶¹ See, e.g., J. Gregory Sidak, *FRAND in India*, in 1 CAMBRIDGE HANDBOOK OF TECHNICAL STANDARDIZATION LAW: ANTITRUST AND PATENTS (Jorge Contreras ed., forthcoming 2017) (manuscript at 7), <https://www.criterioneconomics.com/frand-in-india-royalties-for-standard-essential-patents.html> ("[T]he court observed that, because iBall refused to sign a [nondisclosure agreement], a negotiation between the parties could not commence." (citing Order ¶¶ 1–2, at 1–2, *Telefonaktiebolaget LM Ericsson v. M/S Best IT World Private Ltd. (iBall)*, Interim Application 17351 of 2015 in Civil Suit (Original Side) in No. 2501 of 2015, High Ct. of Delhi (Sept. 2, 2015), <http://lobis.nic.in/ddir/dhc/MAN/judgement/03-09-2015/MAN02092015S25012015.pdf>)).

²⁶² See, e.g., Written Submission on the Public Interest of Federal Trade Commission Chairwoman Edith Ramirez, *Certain 3G Mobile Handsets and Components Thereof*, Inv. No. 337-TA-613, 2015 WL 4396145, at *1 (July 10, 2015); Reply Submission on the Public Interest of Federal Trade Commissioners Maureen K. Ohlhausen and Joshua D. Wright, Inv. No. 337-TA-613 (July 20, 2015).

²⁶³ Ramirez ITC Submission, 2015 WL 4396145, at *1.

²⁶⁴ *Id.* at *3.

that the respondent is insisting on terms that are clearly outside a reasonable interpretation of FRAND.²⁶⁵ Chairwoman Ramirez's proposal implicitly suggests that the ITC's public-interest analysis should presume that the issuance of an exclusion order against products that infringe an SEP disserves the public interest. Her proposal would then allow the SEP holder to rebut that presumption of harm, by showing that the licensee was unwilling to accept a FRAND offer. Put differently, Chairwoman Ramirez's proposal presumes that, absent evidence of the licensee's unwillingness, the SEP holder's request for an exclusion order serves only to enable patent holdup.

However, Chairwoman Ramirez's suggestions contradict basic legal and economic principles that guide § 337 investigations. The Tariff Act provides that, upon finding a violation of § 337, the Commission *shall* issue an exclusion order *unless* the public interest dictates otherwise.²⁶⁶ When deciding whether to issue an exclusion order, the ITC begins its public-interest analysis with the presumption that an exclusion order will serve the public interest.²⁶⁷ It is for the respondents to rebut that presumption, by showing that the public-interest factors advise against issuing an exclusion order. Congress's use of the word "unless" in the statutory language of § 337's public-interest provision indicates that, upon finding a violation, the ITC's rejection of an exclusion order is an *exception* to the general rule of issuing the exclusion order. A respondent that seeks to avoid an exclusion order must therefore bear the burden of proving that, in its particular case, the public-interest factors counsel against the issuance of an exclusion order.

There is no valid legal or economic justification to depart from the ITC's established approach for delegating the public-interest burden in investigations concerning FRAND-committed SEPs. As section 210.27(a) of the ITC's rules states, "[t]he proponent of any factual proposition shall be required to sustain the burden of proof with respect

²⁶⁵ *Id.*

²⁶⁶ 19 U.S.C. § 1337(d)(1) (2012).

²⁶⁷ *See, e.g.*, Certain Mobile Devices, Associated Software, & Components Thereof, Inv. No. 337-TA-744, Pub. 4384, 2012 WL 3715788, at *18 (USITC June 5, 2012) (Final) ("[W]e note that the public interest favors the protection of U.S. intellectual property rights."); Certain Baseband Processor Chips & Chipsets, Transmitter & Receiver (Radio) Chips, Power Control Chips, & Prods. Containing Same, Including Cellular Telephone Handsets, Inv. No. 337-TA-543, Pub. 4258, 2011 WL 6121182, at *75 (USITC Oct. 1, 2011) (Final) ("[I]n assessing public interest factors when granting relief, the Commission relies on the strong public interest in enforcing intellectual property rights."); Certain Ground Fault Circuit Interrupters & Prods. Containing Same, Inv. No. 337-TA-739, 2012 WL 2394435, at *60 (USITC June 8, 2012) (Final) ("[C]ompetitive conditions in the U.S. economy are advanced by the consistent enforcement of valid U.S. patent rights."); Certain Two-Handle Centerset Faucets & Escutcheons, & Components Thereof, Inv. No. 337-TA-422, Pub. 3332, 2000 WL 1159298, at *9 (USITC June 19, 2000) (Final) ("[T]he public interest favors the protection of U.S. intellectual property rights by excluding infringing imports").

thereto.”²⁶⁸ It is hence for a respondent alleging that the SEP holder has engaged in patent holdup to provide sufficient evidence to support that claim. There is no valid justification for assuming that the SEP holder’s offer was not FRAND simply because the respondent claims so. The respondent should be able to substantiate its claims and present to the ITC the factual basis for its conclusion that the SEP holder’s offer was not FRAND.

Both the Federal Circuit and Ambassador Froman have endorsed the analysis of factual, empirical evidence to substantiate allegations of patent holdup and patent holdout. Economists are sharply divided on the question of whether patent holdup is more than a merely theoretical concern.²⁶⁹ The Federal Circuit has taken no position on the economic theories of patent holdup or holdout, but instead, it has required the party alleging either type of opportunism to support that allegation with empirical evidence.²⁷⁰ The Federal Circuit emphasized that “something more than a general argument that these phenomena are possibilities is necessary.”²⁷¹ Ambassador Froman, in his letter to the ITC in 2013, also recommended that the ITC collect empirical evidence to bolster any findings on patent holdup.²⁷² Therefore, presuming (rather than demanding evidence) that an exclusion order disserves the public interest in cases concerning FRAND-committed SEPs (because of a theoretical risk of patent holdup) would contradict not only the ITC’s rules, but also the Federal Circuit’s principles and Ambassador Froman’s instructions to the ITC.

Chairwoman Ramirez’s proposal to reverse the burden of proof would also disfavor SEP holders that have fully complied with their FRAND obligations. To illustrate, suppose that the FRAND range for an SEP portfolio is between \$3 and \$15 per infringing device and, suppose further that the SEP holder has made an offer within the FRAND

²⁶⁸ 19 C.F.R. § 210.27(a) (2015).

²⁶⁹ Compare Lemley & Shapiro, *supra* note 5, and Farrell, Hayes, Shapiro & Sullivan, *supra* note 5, with J. Gregory Sidak, *Holdup, Royalty Stacking, and the Presumption of Injunctive Relief for Patent Infringement: A Reply to Lemley and Shapiro*, 92 MINN. L. REV. 714 (2008), and Alexander Galetovic, Stephen Haber & Ross Levine, *An Empirical Examination of Patent Holdup*, 11 J. COMPETITION L. & ECON. 549, 572 (2015), and Joshua D. Wright, Comm’r, Fed. Trade Comm’n, Remarks at the Center for the Protection of Intellectual Property Inaugural Academic Conference: The Commercial Function of Patents in Today’s Innovation Economy 20 (Sept. 12, 2013), http://www.ftc.gov/sites/default/files/documents/public_statements/ssos-frand-and-antitrust-lessons-economicsincomplete-contracts/130912cpip.pdf (“Despite the amount of attention patent hold-up has drawn from policymakers and academics, there have been relatively few instances of litigated patent hold-up among the thousands of standards adopted.”).

²⁷⁰ *Commonwealth Sci. & Indus. Research Org. v. Cisco Sys., Inc.*, 809 F.3d 1295, 1302 (Fed. Cir. 2015); *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1232 (Fed. Cir. 2014).

²⁷¹ *Ericsson v. D-Link*, 773 F.3d at 1232.

²⁷² See Ambassador Froman’s Letter, *supra* note 6, at 3.

range—say, \$14 per infringing device. The exact duties that arise from a contract between an SEP holder and an SSO are determined by the specific FRAND commitment, and by the intellectual property rights (IPR) policies of the SSO, which might differ depending on the SSO. For most SSOs, however, a voluntary FRAND commitment means that the SEP holder undertakes a duty to offer to license its SEPs on FRAND terms to anyone seeking to implement the standard. Thus, by making an offer of \$14 per infringing device, the SEP holder has discharged its FRAND obligation as a matter of contract law. Suppose further that the respondent has refused the \$14 FRAND offer in an attempt to persuade the SEP holder to accept an offer at the lower boundary of the FRAND range—for example, \$3.01 per infringing device. After a lengthy negotiation, suppose that the parties fail to reach an agreement, and the SEP holder files a complaint at the ITC, requesting that the ITC issue an exclusion order against the respondent's infringing product. If the ITC were to adopt Chairwoman Ramirez's approach, the SEP holder could not obtain an exclusion order, because it could neither (1) show that the respondent was unwilling to negotiate a license nor (2) show that the respondent had made an offer "clearly outside a reasonable interpretation of FRAND" (assuming, in this example, that \$3.01 per infringing device is within the FRAND range).²⁷³ On the basis of Chairwoman Ramirez's suggested approach, an SEP holder that had made a FRAND offer and had fully discharged its FRAND obligation would not be able to show that the issuance of an exclusion order does not conflict with the public interest, and thus would receive no remedy for the respondent's infringement.

In sum, it should be for the respondent to prove that, in a given investigation, the issuance of an exclusion order would disserve the public interest because the SEP holder has engaged, or has attempted to engage, in patent holdup. If the respondent shows that the SEP holder has attempted to engage in patent holdup, the ITC would conclude that the public-interest factors weigh against the benefit of an exclusion order. Conversely, if the respondents fail to present such evidence, then the ITC has a statutory duty to issue an exclusion order upon finding a violation of § 337 (assuming that the other statutorily enumerated public-interest factors indicate that an exclusion order would not disserve the public interest).

C. *A Patent's Essentiality and the FRAND Commitment*

Ambassador Froman instructed the ITC also to require the parties to develop a factual record regarding "the standard-essential nature of the

²⁷³ Written Submission on the Public Interest of Federal Trade Commission Chairwoman Edith Ramirez, Certain 3G Mobile Handsets and Components Thereof, Inv. No. 337-TA-613, 2015 WL 4396145, at *3 (July 10, 2015).

patent at issue if contested by the patent holder.”²⁷⁴ Although his statement superficially seems to imply that the ITC should examine the asserted patent’s essentiality, closer analysis shows that, in practice, Ambassador Froman asked the ITC to assume that the asserted patent is essential and, therefore, subject to a FRAND commitment.

1. Is the Patent’s Essentiality a Condition Precedent to the FRAND Obligations?

A patent’s essentiality to practice a standard is not obvious. During the standardization process, the SSO typically asks its participants to disclose any patent that they believe is essential, or might become essential, to practice that standard.²⁷⁵ The SSO also requires that each participant clarify whether it would be willing to license its patent on FRAND terms if implemented in the standard.²⁷⁶ The SSO’s rules generally do not obligate the patent holder to perform a patent search when disclosing its essential patents, but they require the patent holder to make such a declaration on the basis of good faith and belief.²⁷⁷ At no point in the development and promulgation of a technical standard is there any process of checking which patents are actually essential to practice the standard. Consequently, it should be no surprise that some patents that have been declared as potentially essential are, in fact, inessential.

A patent’s essentiality to a standard has limited relevance to determining whether a particular product infringes a patent. The Tariff Act does not differentiate between the infringement of patents that are essential to an industry standard and those that are not.²⁷⁸ The finding that a patent is inessential does not necessarily imply that the patent is not infringed. A product might infringe a patent, even if that patent was previously declared essential to an industry standard but ultimately found to be inessential.

The patent’s essentiality is fundamental, nevertheless, to determining whether the patent holder has a duty to license that patent on FRAND terms. The SEP holder’s duty to offer to license its SEPs on FRAND terms is typically conditional upon the essentiality of its patent to practice a particular standard.²⁷⁹ An SEP holder that submits a FRAND dec-

²⁷⁴ Ambassador Froman’s Letter, *supra* note 6, at 3.

²⁷⁵ See, e.g., European Telecommunication Standards Institute [ETSI], ETSI Intellectual Property Rights Policy, Annex 6, § 4.1 (Nov. 18, 2015) [hereinafter ETSI IPR Policy], <http://www.etsi.org/images/files/IPR/etsi-ipr-policy.pdf>.

²⁷⁶ *Id.* § 6.

²⁷⁷ *Id.* § 4.1.

²⁷⁸ See, e.g., USITC Inv. No. 337-TA-794 Final, *supra* note 148, at 46–47.

²⁷⁹ See J. Gregory Sidak, *A FRAND Contract’s Intended Third-Party Beneficiary*, 1 CRITERION J. ON INNOVATION (forthcoming 2016), <https://www.criterioneconomics.com/a-frand-contracts-intended-third-party-beneficiary.html>.

laration to ETSI, for example, agrees that, “[t]o the extent that the IPR(s) [intellectual property rights] disclosed in the attached *IPR Information Statement Annex* are or become, and remain ESSENTIAL,” the SEP holder will offer an irrevocable license on FRAND terms.²⁸⁰ By declaring a patent to be essential, an SEP holder thus agrees to offer to license its SEPs on FRAND terms, subject to the condition that its patents “are or become, and remain” essential to practice ETSI’s standard.²⁸¹ In legal terms, a patent’s essentiality is a condition precedent to the SEP holder’s duty to ETSI to license the patent on FRAND terms to implementers of ETSI’s standard. If a patent is not (or is no longer) essential to practice ETSI’s standard, then the patent holder does not have a duty to offer to license that patent on FRAND terms.²⁸² From a contract law perspective, any analysis of the patent holder’s compliance with the FRAND commitment becomes immaterial after the ITC has found a patent inessential.

Curiously, Ambassador Froman said that the ITC should examine the patent’s essentiality only if contested by the patent holder. However, the complainant typically does not contest the essentiality of its own patents. It is instead the respondent that typically presents such an allegation, by using a claim about inessentiality as evidence that the respondent’s product does not infringe the patent. Nonetheless, as Judge Essex has observed, by claiming that a patent is inessential, the respondent risks losing any benefit that it might gain from the patent holder’s FRAND commitment.²⁸³ Ambassador Froman’s statement seems to imply that the ITC should *not* consider a respondent’s claim of noninfringement as an implicit challenge to the patent’s essentiality. Instead, Ambassador Froman’s statement suggests that the ITC should assume that the patents are essential to practice the standard and, consequently, are subject to a FRAND commitment, unless the patent holder explicitly contests its patents’ essentiality.

2. Is the FRAND Commitment an Enforceable Contract?

In examining a patent’s essentiality, the ITC has raised a question that Ambassador Froman ignored in his letter: does a FRAND commitment constitute an enforceable contract?

²⁸⁰ ETSI, Ericsson’s IPR Information Statement and Licensing Declaration, ISLD-201509-007, at 1 (Oct. 1, 2015) [hereinafter Ericsson’s Licensing Declaration to ETSI] (emphasis in original), https://ipr.etsi.org/IPRDetails.aspx?IPRD_ID=2211&IPRD_TYPE_ID=2&MODE=2.

²⁸¹ *Id.*

²⁸² Certain 3G Mobile Handsets and Components Thereof at 36–38, Inv. No. 337-TA-613, Pub. 4145 (USITC May 8, 2015) (Initial) [hereinafter USITC Inv. No. 337-TA-613 Initial].

²⁸³ *Id.* at 37 (“Respondents in this case have vigorously asserted that the patents in issue are not essential. . . . By so claiming, they risk losing the benefit of any defense they may have under the ETSI agreement regarding FRAND rights that protect the interests of third parties.”).

Indeed, whether a commitment reaches the level of a binding contract is a fact-specific question that needs to be determined on the basis of the particular terms of that commitment and the contract law that applies to the specific case. In most U.S. jurisdictions, the essential elements of a contract are (1) an offer, (2) an acceptance of the offer, (3) an understanding between the parties regarding the essential terms of the contract, and (4) consideration, which is some legal benefit given or legal detriment suffered by each party in exchange for the other party's promise or performance.²⁸⁴ Nonetheless, a contract's essential elements might differ in jurisdictions outside the United States. An SEP holder's FRAND commitment is not an enforceable contract if it does not contain the necessary elements to form a binding contract under the applicable law.

Some U.S. courts have found an SEP holder's FRAND commitment to be a binding contract between the SEP holder and the SSO.²⁸⁵ For example, in *Apple v. Motorola*, Judge Barbara Crabb of the District Court for the Western District of Wisconsin considered whether Motorola had entered into a binding FRAND contract with ETSI and the IEEE, respectively.²⁸⁶ She found:

Both Motorola and the organizations benefited from this arrangement and thus, the element of consideration is satisfied. Motorola received the benefit of participating in the standards development process and influencing the choice of technology for the standards. The organizations benefited from Motorola's commitments by knowing that their technical standards would be available for use by third parties.²⁸⁷

Judge Crabb thus found each of Motorola's FRAND commitments to be a bargain between the SSO and Motorola in which Motorola agreed to make its technology available on FRAND terms in exchange for participation in the standard-setting process.

²⁸⁴ See, e.g., *Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d 1061, 1083 (W.D. Wis. 2012) ("To form a valid contract under Wisconsin law, there must be evidence of an offer, acceptance and consideration, and an understanding between the parties regarding the essential terms of the contract. Apple's expert states that French law requires the same general elements, which Motorola has not disputed." (internal citations omitted)).

²⁸⁵ See, e.g., *id.* at 1083–85. In some FRAND cases, the parties have not disputed whether the SEP holder's FRAND commitment is a contract. The courts in such cases consequently did not examine whether the SEP holder's commitment met the necessary elements of a contract. See, e.g., *Realtek Semiconductor Corp. v. LSI Corp.*, 946 F. Supp. 2d 998, 1005 (N.D. Cal. 2013) ("There is no dispute in this case that defendants entered into a binding contract with the IEEE to license their declared standard-essential patents . . . on RAND terms, and that Realtek is a third party beneficiary to that contract.").

²⁸⁶ *Apple*, 886 F. Supp. 2d at 1083–85.

²⁸⁷ *Id.* at 1084.

However, commentators have criticized the conclusion that participation in the SSO constitutes consideration that the SEP holder receives in exchange for agreeing to offer its SEPs on FRAND terms.²⁸⁸ For example, ETSI's Rules of Procedure provide that, when ETSI becomes aware of the existence of an SEP, it shall immediately request that the patent holder clarify whether it is willing to license its SEPs on FRAND terms.²⁸⁹ However, the SEP holder's voluntary submission of a FRAND commitment is not a condition of its participation in the standard-setting process. If the SEP holder is ultimately unwilling to license its patented technology on FRAND terms, ETSI's rules specify an elaborate series of steps to attempt to resolve the issue.²⁹⁰ Ultimately, if an SEP is not available on FRAND terms, ETSI might modify the standard to exclude that technology.²⁹¹ However, nothing in the ETSI IPR policy states or implies that ETSI will exclude from the standard-setting process an SEP holder that fails to submit a FRAND commitment.²⁹² Thus, in the ETSI case, it would be incorrect to state that an SEP holder agrees to license its SEPs on FRAND terms *in exchange for* participation in the SSO. In other words, ETSI's grant of membership cannot constitute consideration that the SEP holder receives for agreeing to the FRAND commitment. If a court finds that the SSO has provided no consideration in exchange for the FRAND commitment, it might conclude, depending on the applicable contract law, that the FRAND commitment is not a binding contract.

Not surprisingly, the ITC has been cautious in interpreting FRAND commitments to be contracts. For example, in *Certain Wireless Devices with 3G and/or 4G Capabilities and Components Thereof*, Judge Essex questioned whether InterDigital's FRAND commitment to ETSI constituted a binding contract.²⁹³ He said that the ETSI Rules of Procedure, which created "InterDigital's obligations as a result of its membership in ETSI," were "not a contract," but merely provided "rules to guide the parties in their interactions with the organization, other members, and third parties."²⁹⁴ Judge Essex noted that the ETSI Rules of Procedure left many terms, such as "adequate and fairly rewarded," undefined.²⁹⁵ He said that, although French contract law (which was applicable in that

²⁸⁸ See, e.g., Jorge L. Contreras, *A Market Reliance Theory for FRAND Commitments and Other Patent Pledges*, 2015 UTAH L. REV. 479, 504–06 (2015).

²⁸⁹ ETSI IPR Policy, *supra* note 275, § 6.1 (emphasis added).

²⁹⁰ *Id.* § 8.

²⁹¹ *Id.*

²⁹² *Id.*

²⁹³ *Certain Wireless Devices with 3G and/or 4G Capabilities & Components Thereof*, Inv. No. 337-TA-868, Pub. 2929, 2014 WL 2965327, at *75–76 (USITC June 13, 2014) (Initial); see also USITC Inv. No. 377-TA-613 Final, *supra* note 233, at 40–41.

²⁹⁴ *Certain Wireless Devices with 3G and/or 4G Capabilities & Components Thereof*, 2014 WL 2965327, at *75.

²⁹⁵ *Id.*

case) “allows a contract to be made without including the price in the contract, . . . the ETSI documents in question create[d] many more factors that must be examined before the FRAND obligation is triggered.”²⁹⁶ He concluded that “the agreement is not a contract itself, but rather an agreement in principal.”²⁹⁷ If the ITC determines that the SEP holder’s FRAND commitment does not meet the necessary elements of a contract, it might conclude that the FRAND commitment imposes no obligations on the SEP holder beyond those of a public pledge.²⁹⁸

Unfortunately, Ambassador Froman provided no instruction regarding the enforceability of a FRAND commitment, leaving open the question of whether the ITC should examine the enforceability of the FRAND agreement.

CONCLUSION

Upon finding a § 337 violation, the ITC must issue an exclusion order unless the statutorily enumerated public-interest factors advise against the use of such a remedy. The ITC confirmed that this basic principle applies for regular patents, as well as for FRAND-committed SEPs. President Obama’s 2013 veto of an ITC exclusion order against products that infringed SEPs instructed the ITC to examine in its public-interest analysis whether evidence of patent holdup or patent holdout advises against the issuance of an exclusion order. The ITC consequently scrutinized in detail allegations of patent holdup, and of the SEP holder’s failure to comply with the FRAND commitment. However, in none of the investigations did the ALJ find that the empirical evidence supported those allegations, let alone that the evidence supported the denial of an exclusion order. It is thus evident that unsupported allegations of patent holdup are insufficient to preclude the ITC’s issuance of an exclusion order.

When examining evidence of patent holdup, the ITC should base its determination on factual evidence obtained during the investigation. The most relevant inquiry is whether the SEP holder has made the respondent an offer to license its SEPs on FRAND terms. If the SEP holder has made a genuine FRAND offer, by definition, there cannot be patent

²⁹⁶ *Id.*

²⁹⁷ *Id.*

²⁹⁸ That an SEP holder’s FRAND commitment lacks the elements necessary to create a bilateral contract does not necessarily imply that the commitment creates no obligations for the SEP holder. For example, a FRAND commitment might be enforceable under a different framework, such as a unilateral contract or promissory estoppel. *See, e.g.*, RESTATEMENT (SECOND) OF CONTRACTS § 90 (AM. LAW INST. 1981) (“A promise which the promisor should reasonably expect to induce action or forbearance on the part of the promisee or a third person and which does induce such action or forbearance is binding if injustice can be avoided only by enforcement of the promise.”).

holdup. Only when the ITC does not have any licensing offers to evaluate should it consider, for purposes of determining whether the complainant has engaged in holdup, whether the SEP holder has failed to take the necessary steps to initiate negotiations with the respondent and has violated any obligations arising from its FRAND commitment. Because § 337 provides that the ITC shall issue an exclusion order unless consideration of the public-interest factors counsels against such remedy, it is properly the respondent's burden to offer evidence of patent holdup, and thereby demonstrate that, in that specific case, the public interest in avoiding patent holdup outweighs the benefits of issuing an exclusion order.

