



10-3-2012

Should FRAND Patents Get Exclusion Orders?

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Should FRAND Patents Get Exclusion Orders?

October 3, 2012 National Academy of Sciences
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Section 337, not eBay, governs whether the ITC should grant an exclusion order



4 Equitable Factors (eBay)

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

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



“May grant”
 4 Equitable Factors (eBay)

“Shall direct...unless”
 4 Public Interest Factors (§ 1337(d)(1))

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

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



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

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



“May grant”
 4 Equitable Factors (eBay)

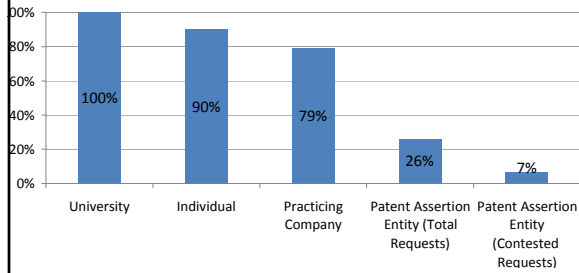
“Shall direct...unless”
 4 Public Interest Factors (§ 1337(d)(1))

This difference in standards has resulted in a difference in outcomes



Chien & Lemley (2012)

...Making it hard for certain parties to get injunctions...



Chien & Lemley (2012)

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

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

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

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

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

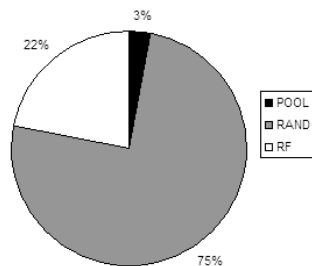


Posner: A FRAND royalty would provide all the relief to which Motorola would be entitled...and thus it is not entitled to an injunction.

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

Many IT patents are FRAND encumbered...

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



In Today's Presentation, I will ...

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

In Today's Presentation, I will ...

1. Describe the FRAND Bargain

The FRAND Bargain...

Patent Holder



SDO/Public



I agree to offer my technology at a reasonable price

We agree to adopt your technology

The FRAND Bargain + the Possibility of Injunctive Relief

Patent Holder



SDO/Public



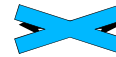
I agree to offer my technology at a reasonable price...

Take it at my price, or else!

We agree to adopt your technology

The FRAND Bargain + the Possibility of Injunctive Relief

Patent Holder



SDO/Public



I agree to offer my technology at a reasonable price...

We agree to adopt your technology

In Today's Presentation, I will ...

2. Analyze the FRAND Bargain under eBay and Section 337

The FRAND Bargain...

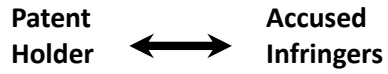
Patent Holder



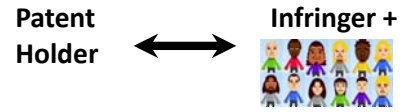
SDO/Public



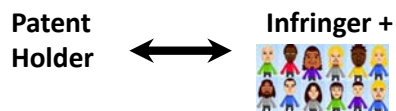
Patent Disputes



FRAND + Patent Disputes



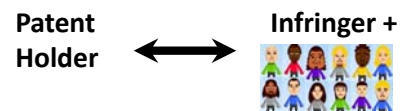
The FRAND Bargain + eBay



I agree to offer my technology at a reasonable price

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

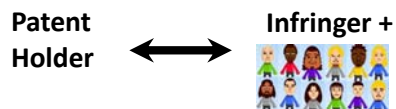
The FRAND Bargain + Section 337



4 Public Interest Factors

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

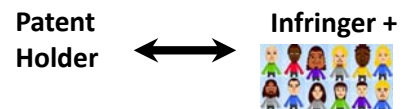
The FRAND Bargain + Section 337



4 Public Interest Factors

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

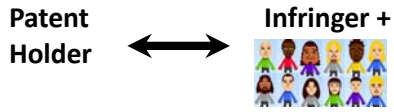
The FRAND Bargain + Section 337



4 Public Interest Factors

- (2) Competitive Conditions
- (4) US Consumers

The FRAND Bargain + Section 337

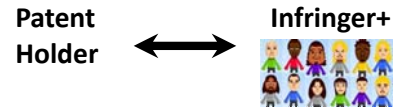


4 Public Interest Factors

(2) Competitive Conditions

(4) US Consumers

The FRAND Bargain + Section 337

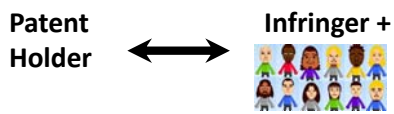


4 Public Interest Factors

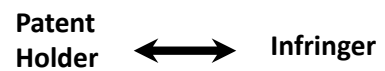
(2) Competitive Conditions

(4) US Consumers

The FRAND Bargain + Section 337



Section 337



Section 337 + FRAND



If it's a FRAND patent ...



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

But it's rarely that simple...

What if its FRAND ...

Patent Holder ↔ Infringer + 

But patent holder's offer isn't reasonable

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


What if its FRAND ...

Patent Holder ↔ Infringer + 

But infringer refuses to take a license

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


What if its FRAND ...

Patent Holder ↔ 

But infringer does not plead estoppel, waiver, laches

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

What if its FRAND ...

Patent Holder ↔ 

But infringer does plead estoppel, waiver, laches

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

What if its...

Patent Holder ↔ Infringer + 

Not FRAND, only standards essential

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

Btw, exclusion orders are not just on-off switches

Levers for Tailoring Exclusion Orders

Scope

Timing of Implementation

Bond/Penalty Provisions

In Today's Presentation, I will ...

3. Look Outside the Courtroom

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

This is the status quo... so likely nothing...

Will patentholders hold out from standards/
FRAND?

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

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

FRAND promises won't mean as much
The Market Will React

SSOs to add a "no exclusion" clause?

FRAND patents may rush to the ITC

see, e.g.

TA-337-800 Interdigital (3G)

TA-337-818 Vernetix (VPN) (just refiled)

TA-337-808 HTC (4GLTE)

...

There are many FRAND patents

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

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

TA-337-818 Vernetix

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

The FTC, DOJ, and Congress should stay engaged



TA-337-800 Interdigital (3G)

TA-337-818 Vernetix (VPN) (just refiled)

TA-337-808 HTC (4GLTE)

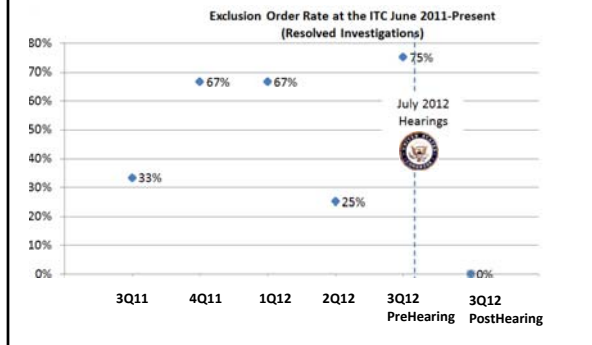
...

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

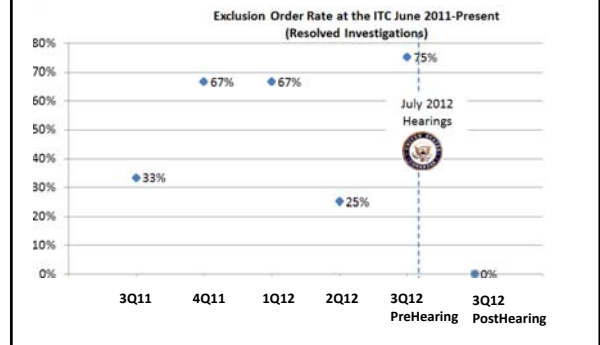
§ 1337 (d)(1)

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

What Will the ITC Do?



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



Thank You

References:

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

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

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