RESPONSES TO WRITTEN QUESTIONS
FROM SUBCOMMITTEE MEMBERS
ON BEHALF OF INTEL CORPORATION

For The

SENATE COMMITTEE ON THE JUDICIARY
SUBCOMMITTEE ON ANTITRUST, COMPETITION POLICY
AND CONSUMER RIGHTS

On

STANDARD ESSENTIAL PATENT DISPUTES
AND ANTITRUST LAW

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Response to Senator Klobuchar's Written Question for the Record

1. Some observers in the industry have suggested that standard setting organizations' IP policies should mandate some form of alternative dispute resolution for FRAND disputes, such as mandatory binding arbitration, before an injunction or an exclusion order can be sought. In other words, injunctions and exclusions orders should be reserved only for a truly unwilling licensee and, in the case of an exclusion order, for a party that can't be reached through the U.S. court system. What are your views on this suggestion?

A. Intel agrees that injunctions and exclusions orders should be reserved for truly unwilling licensees for at least two reasons. First, that conclusion follows directly from the FRAND commitment itself. A SEP holder that has voluntarily committed to license its SEPs to any standard implementer willing to enter into a FRAND-compliant license has expressly agreed that monetary remuneration is adequate compensation for its SEPs and should therefore be prevented from pursuing other remedies against willing licensees.[1] Second, public policy also strongly supports the use of injunctions and exclusion orders against only unwilling licensees in this context. The primary justification for such exclusionary remedies—to ensure that a patent holder has the right to prevent others from using its patented technology—is not present in cases of FRAND-encumbered SEPs because the SEP holder has already given up that right in exchange for a commitment to offer a FRAND license to all implementers. Reserving exclusionary remedies for only those that are unwilling or unable to pay a judicially-determined FRAND royalty, or that are outside the court's jurisdiction to award monetary relief, is appropriate because it prevents the use of those remedies to extract unreasonable hold-up royalties from standard implementers and protects the pro-consumer, pro-competition benefits of standard-setting activities, while still balancing the need for SEP holders to obtain appropriate relief where monetary compensation is unavailable.

Intel does not believe, however, that an SSO policy mandating binding arbitration for FRAND disputes is an appropriate vehicle to ensure that injunctions and exclusion orders are available only against an unwilling, unable, or unreachable licensee. In fact, as explained below, Intel believes that such a policy is neither feasible nor advisable.

With respect to feasibility, based on Intel's extensive history and experience with SSOs, Intel believes that SSOs are very unlikely to adopt rules requiring mandatory arbitration. Amendment of the rules governing SSOs is typically governed by the relevant by-laws, membership agreements, and/or constitutions of such organizations. SSOs tend to include a broad cross-section of industry participants in their membership, including companies that have an economic interest in the status quo. In the past, such companies have attempted to block efforts to clarify SSO rules to remove the alleged ambiguities on which they have relied to justify hold-up behavior. Thus, widespread adoption of a policy requiring alternative dispute resolution

[1] Some FRAND commitments require both payment of a royalty and agreement to certain other licensing terms. For the purposes of this submission, Intel treats a willing licensee or willing implementer as one who is willing to satisfy both the FRAND royalty and other FRAND licensing terms.

for FRAND disputes as a prerequisite to seeking an injunction or an exclusion order is unlikely any time in the near future.

Even if SSO adoption of mandatory binding arbitration were feasible, Intel believes it is unlikely to strike the right balance between public and private interests. Although Intel supports restricting the availability of exclusionary remedies to those limited cases where such relief is warranted, Intel does not support foreclosing access to the federal courts—which have historically been the primary arbitrators of patent issues. Federal district courts have plenary jurisdiction over patent infringement actions and can award monetary damages. The federal courts also have the equitable power to impose injunctive relief where monetary relief is truly inadequate or unavailable, but in order to do so, a party seeking injunctive relief "must demonstrate . . . that remedies available at law, such as monetary damages, are inadequate to compensate for [its] injury." *eBay Inc. v. MercExchange*, 547 U.S. 388, 391 (2006). Through appropriate legislation, the ITC could be required to apply the *eBay* criteria before issuing an exclusion order.

Federal courts are better equipped to handle complex, multi-pronged issues of validity, enforceability, infringement, and royalties and to deal with procedural issues such as evidence and confidentiality. Also, given the strong public and private interests at stake in these disputes, relevant orders should be subject to appellate review by the U.S. Court of Appeals for the Federal Circuit, which has jurisdiction over appeals arising under the patent laws. Further, court proceedings generally have greater public access—court opinions are either published or, at a minimum, available electronically, and amicus parties can provide additional input in appropriate cases—whereas arbitration proceedings, by contrast, have extremely limited (if any) public access or published opinions. Any interested party should be able to rely on, cite, distinguish, or offer positions concerning court-made law, rather than having all FRAND determinations made behind closed doors in arbitration. In light of the strong public interests involved, Intel believes FRAND disputes will benefit from more—not less—transparency.

For all of these reasons, Intel believes that judicial, regulatory, and legislative institutions are better positioned to address the important issues at stake in FRAND disputes and to ensure that injunctions and exclusion orders are available only against those potential licensees that are unwilling or unable to pay FRAND royalties, or unreachable through the federal district courts.

Responses to Senator Grassley's Written Questions for the Record

1. How pervasive is the problem of patent hold-up? What evidence do you have to support your response? What about the problem of patent hold-out? How pervasive is that problem, and what evidence do you have to support your answer?

A. Hold-up: Patent hold-up is an important and commonly occurring problem. It is far more pervasive than the handful of recent litigated FRAND cases suggests, because most licensing activity occurs out of public sight and the terms of individual licenses are rarely disclosed.

The fundamental problem is that implementers of standards usually cannot risk even a low probability of losing in litigation and thus settle patent disputes at excessive royalty rates. Market players that are eager to introduce standard-compliant products into a given market thus often conclude that bringing litigation to challenge a SEP holder's royalty demands or proposed licensing terms, particularly where the potential implementer is not well-funded, is costlier and riskier than simply paying an unreasonable royalty. In a recent article, Professors Fiona Scott Morton and Carl Shapiro, each of whom served as Chief Economist at the Justice Department's Antitrust Division, analyzed the dynamics of negotiations with a SEP holder that breaches its FRAND commitment. They concluded that a rational standard implementer would be willing to settle for more than three times the royalty level that the court deemed reasonable in *Microsoft Corp. v. Motorola* in order to avoid a mere 1.2% chance of losing in court.[2]

Several recent cases illustrate the magnitude of the hold-up problem. In one case, for example, the holder of only two FRAND-encumbered Wi-Fi SEPs demanded "a royalty that exceeds the selling price of [the chipmaker's] products."[3] In *Microsoft Corp. v. Motorola, Inc.*, the royalty demanded by the SEP holder for its FRAND-encumbered Wi-Fi SEPs was 100 times the royalty level that the court ultimately determined to be reasonable.[4]

In the past decade, Intel has had numerous direct experiences with patent hold-up. In a recent case in which Intel was involved, a self-proclaimed SEP holder with patents that it claimed were essential to Wi-Fi technology had a policy of not licensing chipmakers, despite the fact that it had made a F/RAND commitment to "grant a license to an unrestricted number of applicants on a worldwide, non-discriminatory basis and on reasonable terms and conditions," and despite the fact that the accused technology was included entirely and only within the Wi-Fi chip. That policy facilitated the extraction of higher royalties from downstream computer manufacturers. The alleged SEP holder demanded a 50-cent per unit royalty based on licenses largely directed at end products in which the Wi-Fi chips were used, such as notebook PCs,

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[2] Fiona Scott Morton and Carl Shapiro, *Strategic Patent Acquisitions* at 5-6 (2013), *available at* http://faculty.haas.berkeley.edu/shapiro/pae.pdf (referring to *Microsoft Corp. v. Motorola*, *Inc*., 2013 U.S. Dist. LEXIS 60233 (W.D. Wash., Apr. 25, 2013)).

[3] *Realtek Semiconductor Corp. v. LSI Corp*., 2012 WL 4845628 at *2 (N.D. Cal. May 20, 2013).

[4] *Microsoft Corp.*, 2013 U.S. Dist. LEXIS 60233, at *212, *303. Motorola sought a royalty of $3.00–$4.50 per unit, *id*. at *212, but the court determined that the FRAND rate was $0.03471 per unit, *id*. at *303.

which cost hundreds of dollars, rather than the price of the allegedly infringing chips, which can sell for as little as $1-3.

The ramifications of this 50-cent royalty demand cannot be overstated. In that case, the alleged SEP holder's asserted SEPs likely accounted for fewer than 3% of all Wi-Fi SEPs. Thus, if all other SEP holders were to charge similar royalties, the cumulative royalty for Wi-Fi SEPs would be at least $16.50, or 1,650% of the price of the lowest priced Wi-Fi chips. With at least 250 standards in a notebook computer, the implications of a $16.50 royalty for a single standard's SEPs are enormous. If the SEP royalty burden for every standard was $16.50, the SEP burden on a $300 notebook computer that incorporates 250 standards would amount to over $4,000. And this does not even account for other patented technologies that are not covered by SEPs or technologies that are not patented. In another case, a different Wi-Fi SEP holder initially demanded $4 per unit for a single alleged Wi-Fi SEP. Unreasonable royalty demands such as these have led to settlements at excessive royalties and widespread litigation, and Intel is aware of over fifteen lawsuits since 2001 involving just the Wi-Fi standards.

Certain advocates for SEP holders question the severity of the hold-up problem.[5] For example, some argue that hold-up of standards-implementers by SEP holders may be avoided if it is foreseeable. They further argue that hold-up is foreseeable based on existing market information—including the identities of existing major long term players from whom it is evident, even before a standard is adopted, that licenses would be needed.[6] In reality, however, the SEP landscape is anything but transparent, and few if any implementers have actually succeeded in avoiding holdup except by costly litigation. Many SEP holders obfuscate their SEP holdings by hiding their alleged SEPs in disclosures identifying hundreds or thousands of patents, a fraction of which are actually believed to be SEPs. Similarly, many of these companies go to great lengths to keep their licensing practices and royalty rates confidential. In the overwhelming majority of situations where a standard setting organization votes to adopt a particular technical proposal, there is no evidence that the full extent of the hold-up problem was foreseeable to the organization. Indeed, many of these companies have blocked attempts to clarify SSO rules to remove the alleged ambiguities on which they have relied to justify hold-up behavior.

The same advocates argue that SEP holders will find it unprofitable to engage in hold-up because hold-up will result in less investment by the potential victim and thereby presumably shrink the available market for SEPs.[7] However, there is no empirical evidence to support the argument that hold-up is unprofitable, and the available evidence indicates that the opposite conclusion is true.[8] And once a given standard has gained substantial commercial acceptance, the short-term financial benefits of hold-up behavior are self-evident.

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[5] Roger G. Brooks, *Patent "Hold-Up", Standard-Setting Organizations, and the FTC's Campaign Against Innovators*, 39 AIPLA Q.J. 435, 446, 453 (2011) ("Brooks").
[6] Brooks, at 443-444, 453.
[7] Brooks, at 443.
[8] *See, e.g.*, *Microsoft Corp.*, 2013 U.S. Dist. LEXIS 60233, at *202-06.

Skeptics of the hold-up problem also cite market participants' roles as "repeat players" as evidence that hold-up does not exist, arguing that reputational considerations will sufficiently restrain such SEP holders from holding up standard implementers.[9] But again, the real-world evidence is to the contrary—repeat player status has not deterred SEP holders from seeking injunctions in pursuit of greater-than-FRAND royalties. Moreover, not every SSO participant is a repeat player, and even repeat players' business strategies sometimes evolve from a focus on product innovation to a focus on SEP monetization as their product businesses decline.

Nor is it persuasive to argue that SSO rules will discourage hold-up.[10] Such rules, to the extent they are in place, will do so only if they are enforced, and to date the burden of enforcement has fallen on individual parties subject to hold-up and on regulatory agencies and courts from whom they have sought assistance.

Finally, critics point to ongoing investment in technology from both new and existing market participants and declining prices for technology products as evidence that the FRAND system is not threatened.[11] These observations ignore the fact that SEP hold-up based on injunction threats is a relatively new phenomenon that had little if any effect on past investments in standard-compliant technologies. Moreover, these comments assume, without evidence, that current and future investment is not being inhibited. These parties also argue that there are very few reported cases of an injunction being granted for infringement of a SEP.[12] This overlooks the widely acknowledged coercive effect of even the threat of an injunction.[13]

So-called "hold-out": In contrast to the hold-up problem, the alleged hold-out (or "reverse hold-up") problem—where potential implementers do not seek licenses to SEPs until threatened with injunctive or exclusionary relief—is neither widespread nor supported by credible evidence. In fact, every reported incident of any real "hold-up" involves hold-up by a SEP holder, and not hold-out by a SEP implementer. And often, conduct that is perceived as hold-out is nothing more than an implementer's exercise of its rights to challenge the validity and/or infringement of a claimed SEP, and not the result of a calculated decision to defy the patent laws.[14]

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[9] Brooks, at 462.
[10] Brooks, at 456-62.
[11] Brooks, at 454.
[12] Brooks, at 472-73.
[13] *See, e.g.,* Prepared Statement of the Fed. Trade Comm'n Before the U.S. Senate Comm. on the Judiciary Concerning "Oversight of the Impact on Competition of Exclusion Orders to Enforce Standard-Essential Patents," at 11-12 (July 11, 2012), *available at* http://www.ftc.gov/os/testimony/120711standardpatents.pdf ("FTC Statement") (A "royalty negotiation [that] occurs under threat of an injunction or an exclusion order may be weighted heavily in favor of the patent holder in a way that is in tension with the RAND commitment.").
[14] *See* Colleen V. Chien & Mark A. Lemley, *Patent Holdup, The ITC, And The Public Interest* at 138 (2012) (noting that "the evidence suggests that virtually all defendants in patent cases are innocent infringers, not copiers") (citation omitted), *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2022168.

Proponents of the alleged "hold-out" problem nonetheless argue that SEP holders are subject to their own "hold-up" by potential licensees because their technology development costs are sunk.[15] But every technological competition requires investment in, and the potential for the loss of, research and development sunk costs. And there is no evidence to suggest that the FRAND trade-off made by SEP holders—forgoing the right to charge excessive royalties in exchange for the ability to earn royalties from an entire industry for the use of patents that otherwise might not have been used—has resulted in inadequate compensation.

In theory, either large or small implementers might engage in hold-out, but only implementers that manufacture or sell a high volume of standard-compliant products are likely to be targets of litigation by SEP holders (given the amounts at stake). Assuming that this is the case, a hold-out strategy by such implementers would be both imprudent and therefore unlikely, because it ultimately would result in the payment of both a reasonable royalty and the high costs of patent litigation.

Moreover, Intel's own experience shows that the hold-out problem, if real, is vastly overstated. Consider that the Wi-Fi SEP holder that refused to license Intel and other chipmakers could have obtained royalties on virtually every Wi-Fi-enabled device by licensing half a dozen chipmakers. Instead, it chose to sue downstream customers of the chipmakers in a piecemeal fashion in both US and European courts. Given that there are thousands of downstream customers and a handful of chipmakers, a SEP holder that is truly concerned about hold-outs would choose to license the chipmakers. This real world experience—what economists call a natural experiment—demonstrates that SEP holders have much more to gain from hold-up than to lose from hold-outs.

2. How do hold-up and hold-out impact innovation and competition?

A. Hold-up both decreases the incentive for innovation and harms competition. Specifically, when the participants in a standard-setting organization choose among different available technologies that compete for inclusion in a standard, they rely on the voluntary commitments of the patent holders to license their SEPs on FRAND terms. Standard-setting organizations developed the FRAND commitment to maintain the benefits of the competition among different patent holders for inclusion of their technologies in a standard even after the standard is adopted and the patented technologies that have been chosen no longer face competition.

Once a technology is selected for inclusion in a standard, widespread adoption of that standard has the potential to confer enormous market power upon SEP holders, unless they are constrained by FRAND commitments. That power does not derive from the intrinsic merit of the patented technology that is included within the standard, which is sometimes no better than the alternatives. Instead, the market power reflects the fact that, after the standard is adopted, the patented technology that is incorporated in the standard must be used by every company that wants its product to be compatible with the standard. The SEP faces no competition from

[15] *See* Brooks, at 442-43.

alternative technologies with respect to that standard, because adoption of the standard has effectively foreclosed competition.

The incorporation of a patent into a standard that achieves commercial acceptance thus has an enormous potential to inflate the patent's value. Because a SEP must be practiced by any company that wants to make standard-compliant products, a SEP holder, unless constrained by a FRAND commitment, can thereafter demand supracompetitive royalties and terms that reflect, not the technological merit of the patent, but rather the standard's elimination of competing technologies. Coupled with the threat of an injunction, even a holder of a single, inconsequential SEP has the power to hold up every standard implementer and extract excessive royalties.

Such conduct injures consumers through higher prices and reduces incentives to invest in the development, manufacture and technological improvement of standard-compliant products by raising the cost of doing so and, as a result, harms innovation.[16] This is especially true where a potential implementer may believe that it has a valid defense to a claim of infringement, such as invalidity, but lacks the resources to mount a defense to an infringement action or concludes that the rational path is, as Professors Scott Morton and Shapiro have shown, to pay an inflated royalty. In such cases, innovation is undermined because potential implementers could be forced to scale back their development efforts or worse, forgo the manufacture of standard-compliant technologies altogether.

By contrast, hold-out does not present the same threat to competition or innovation. There is no empirical evidence to suggest that SEP holders have declined to participate in SSOs because of the supposed threat of hold-out. Nor is there evidence to suggest that SEP holders have been deterred from innovating in any way because of the possibility that they may have to initiate litigation to secure payment of FRAND royalties from certain market players.

Moreover, hold-out can largely be prevented by SEP holders simply by licensing at the earliest point in the manufacturing chain in which they believe their SEPS are implemented—*e.g.*, at the component level—thereby collecting the majority of their royalties from a smaller number of implementers, as opposed to trying to collect from a larger number of downstream manufacturers using such technologies.

3. Do you believe that exclusionary orders should always be prohibited in standard essential patent disputes where the standard essential patent holder has committed to license on RAND terms? Or should the particular factual circumstances be considered on a case-by-case basis? Why or why not?

A. There may be circumstances in which the seeking of an injunction or an ITC exclusion order is appropriate. Specifically, where a standard implementer is either unwilling or unable to pay a judicially-determined FRAND royalty, or is outside the court's jurisdiction such that monetary relief could not be enforced, monetary compensation may not be an adequate

[16] *See eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391-92 (2006) (Kennedy, J., concurring) (noting that when patentees use the threat of an injunction as "a bargaining tool" to charge exorbitant royalties, it becomes a tax that can significantly impede innovation.).

remedy, in which case an injunction or exclusion order should be available. But absent these unique circumstances, injunctions and exclusion orders should not be available.

Injunctions and exclusion orders are intended to enable patent holders to exclude others from practicing the patented technology. In the FRAND context, however, the SEP holder, by virtue of its FRAND commitment, already has voluntarily given its written consent for all implementers of the standard to practice the patented technology subject only to the payment of a FRAND royalty and compliance with any other FRAND terms. As explained in Intel's written statement, that binding agreement—the FRAND commitment—is given by patent holders for the very deliberate purpose *of encouraging the widespread adoption of their patented technology* into a standard.[17] Thus, the primary justification for injunctions and exclusion orders—the protection of the patent holder's right to exclude practice of its patented technology—is absent in cases of FRAND-encumbered SEPs.

A rule that permits injunctions and exclusion orders against unwilling, unable, or judicially unreachable prospective licensees but denies them against willing, able prospective licensees that are subject to courts with monetary enforcement powers strikes the appropriate balance between protecting the public interest in standard-setting activities while ensuring that patent holders are able to obtain reasonable monetary compensation for their valid and essential SEPs. This ensures that SEPs do not become weapons for extracting unreasonable royalties from all standards-implementers. It is also consistent with the equitable principle that injunctive relief generally should be available only where monetary relief—which a SEP holder agrees to accept when it makes a FRAND commitment—cannot remedy the injury for which relief is sought. Whenever a potential licensee is willing and able to pay a FRAND-compliant license, the threat of an injunction or an exclusion order serves no purpose other than to give the SEP holders undue leverage—market power—to extract royalties above the FRAND levels that they have contractually agreed to accept.

4. Some are concerned that a broad denial of remedies in disputes involving standard essential patents in Section 337 proceedings would produce adverse and unintended consequences. Do you agree? Why or why not?

A. No. As long as the alleged infringer is willing and able to pay a FRAND royalty as adjudicated by a court, the denial of exclusionary relief to holders of FRAND-encumbered SEPs in Section 337 cases is highly unlikely to produce adverse consequences. It is important to bear in mind that SEP holders make FRAND commitments voluntarily. In so doing, they elect to forgo exercising some of the property rights associated with their patent ownership in return for the benefit of influencing standards development, promoting the use of their patents in standards, and expanding the number of users of their patented technology. When a SEP holder makes that election, the public interest is served by permitting standard-compliant products to enter the

[17] *See* Prepared Statement for the Record of Intel Corporation for the U.S. Senate Comm. on the Judiciary Concerning "Standard Essential Patent Disputes and Antirust Law," at 17 (July 30, 2013), *available at* http://www.judiciary.senate.gov/pdf/7-30-13MelamedTestimony.pdf ("Intel's Prepared Statement").

market, and the SEP holder's need for relief from infringement of its SEPs is addressed by the imposition and collection of a FRAND royalty in the proper tribunal.

5. In your opinion, does the International Trade Commission have sufficient statutory authority to stay the imposition of an exclusion order contingent on an infringing party's commitment to abide by an arbitrator's determination of the fair value of a license? If it does, do you believe that the International Trade Commission is using that authority appropriately?

A. Intel is not aware of any statutory authority for the issuance of such a stay, and on its face 19 U.S.C. § 1337 does not appear to contemplate such relief in cases in which an exclusion order has been deemed appropriate by the ITC.[18] Moreover, for the reasons set forth in Intel's response to Senator Klobuchar's Written Question for the Record, there are compelling policy reasons for opposing a mandatory arbitration regime. By contrast, the ITC should be understood to have the power (and obligation, in appropriate cases) to refuse to issue an exclusion order relating to FRAND-encumbered SEPs because no exclusion order may be issued when it would harm the public interest.[19] As part of its public-interest analysis, the ITC must evaluate "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."[20]

In the past, the ITC has refused to enter exclusion orders that would cause serious harm to the public interest. That harm often took the form of depriving the public of products necessary for consumer welfare.[21] An exclusion order in a proceeding involving FRAND-encumbered SEPs would result in a different, but equally severe, public-interest harm: the exploitation of market power (which was created by an industry standard, not by the individual SEPs) to deny producers and consumers the benefits of industry standard-setting, after the patent holder publicly and voluntarily waived its right to exclude prospective FRAND licensees from practicing the SEPs in exchange for a FRAND-compliant license. Exclusion orders with respect to FRAND-encumbered SEPs create a risk of coerced windfall settlements that would distort competition, inhibit innovation, undermine the standard-setting process, and injure consumers—the very sort of harm that Section 337's public-interest inquiry was designed to prevent. Indeed, because SEPs are incorporated into a variety of products (*e.g.*, the Wi-Fi standard used in laptops, tablets, mobile phones, printers, medical devices, home security, network equipment,

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[18] However, there is some precedent for the stay of an exclusion order where the public interest dictates. *See, e.g., Certain Personal Data and Mobile Communications Devices and Related Software, Inv*. No. 337-TA-710, USITC Pub. 4331, at 81, 83 (July 15, 2011) (Final) (Commission Opinion) (tailoring exclusion order to allow for a transition period during which replacement products could be produced and provided to consumers where the "immediate exclusion of HTC [devices] would have a substantial impact on T-Mobile's competitiveness").
[19] 19 U.S.C.A. § 1337(d)(1) (2013).
[20] *Id.*; *see also id.* § 1337(f)(1) (same factors considered in evaluating cease-and-desist order).
[21] *See, e.g., Certain Fluidized Supporting Apparatus & Components Thereof*, Inv. No. 337-TA-182/188, USITC Pub. 1667 (Oct. 5, 1984); Inclined-Field Acceleration Tubes & Components Thereof, Inv. No. 337-TA-67, USITC Pub. 1119 (Dec. 29, 1980).

televisions), granting an exclusion order for a FRAND-encumbered SEP could enable a party to effectively shut down multiple U.S. industries or subject them to a windfall tax that is attributable more to the ubiquity of the standard than to any individual SEP. Such market distortion and harm to the standard-setting process and consumers is precisely what Congress intended the ITC to prevent by means of the public interest factors.

6. Do you believe monetary damages are generally a sufficient remedy in standard essential patent cases? Should standard essential patent cases primarily be adjudicated by federal district courts, which can award monetary damages?

A. When a SEP holder voluntarily commits to license its SEPs to any standard implementer that is willing to pay a FRAND-compliant royalty, it in essence acknowledges that monetary remuneration constitutes adequate compensation for its SEPs. Thus, Intel believes that monetary damages are generally a sufficient remedy in FRAND-encumbered SEP cases, except in the limited circumstances in which a standard implementer is either unwilling or unable to pay a judicially-determined FRAND royalty or is beyond the court's jurisdiction such that monetary relief could not be enforced.

Federal district courts have plenary jurisdiction over patent infringement actions and can award monetary damages. These courts also have the equitable power to impose injunctive relief where monetary relief is truly inadequate or unavailable. For these reasons, and because of the legal expertise of such courts on related legal issues in these cases, they are appropriate venues in which to resolve disputes concerning SEPs and, in particular, disagreements relating to the reasonableness of royalties on FRAND-encumbered SEPs.

To date, the federal courts have addressed only a limited set of FRAND-related issues, and some issues, unfortunately, remain unsettled. For example, while several recent federal district court opinions have indicated that holders of FRAND-encumbered SEPs are not entitled to injunctive relief against implementers that are willing and able to pay FRAND royalties,[22] that issue continues to be litigated as a result of lack of appellate guidance. Moreover, the ITC has issued an exclusion order based on infringement of FRAND-encumbered SEPs. Although the United States Trade Representative Ambassador Michael B. G. Froman, citing policy considerations related to competition, among other factors, disapproved the ITC's exclusion order in that case, parties continue to expend substantial resources on litigating such unsettled issues. Ambassador Froman expressed optimism as to the development of appellate jurisprudence on this issue; in the meantime, however, the lack of clear, uniform resolution of these issues suggests that legislation and/or regulatory action may be appropriate to provide guidance to courts and administrative bodies in future proceedings.

7. Exclusion orders are important to U.S. innovators whose standard essential patents are being infringed by foreign manufacturers with no legally sufficient presence in the U.S. to warrant federal court jurisdiction. Why shouldn't standard essential patent holders be

[22] *See Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 877 (9th Cir. 2012); *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 913 (N.D. Ill. June 22, 2012), appeal pending, Nos. 2012-1548, 2012-1549 (Fed. Cir.).

able to seek exclusionary relief against foreign infringers? Would we be weakening important trade enforcement remedies? What are your thoughts on this?

A. Intel does not oppose the availability of injunctive relief or exclusion orders in favor of a SEP holder where a standard implementer is outside the U.S. federal courts' jurisdiction such that monetary relief cannot be enforced. In such limited circumstances, the goals of promoting innovation by U.S. companies and fostering competition are served by the use of such trade enforcement remedies where the statutory criteria are satisfied.

Nor are such remedies weakened by restricting their use to situations in which monetary relief cannot be enforced for infringement of FRAND-encumbered SEPs. To the contrary, these remedies are strengthened because they are tailored to complement, rather than conflict with, the actions of federal courts and the policies of the current administration.

The reality, however, is that the ITC's exclusion remedy is being invoked frequently against *U.S.* innovators. Indeed, the exclusion order that Ambassador Froman recently disapproved was against a domestic innovator—Apple. Microsoft has similarly been threatened with an ITC exclusion order. These exclusion orders cannot be defended on the ground that they are tailored to protect domestic innovators from foreign copycats. Increasingly, exclusion orders are being sought against domestic innovators that must use SEPs in order to comply with industry standards.

8. Do you believe that exclusion orders in standard essential patent cases can pose a potential barrier to entry for new market participants? If companies are concerned about the possibility of patent hold up, will they be hesitant to enter new markets, particularly technology markets in which a single device can implement thousands of standard essential patents?

A. There is no question that new market participants—especially small participants—may be deterred, or prevented, from entering markets due to the hold-up potential created by the ability of SEP holders to seek injunctions and exclusion orders against willing and able licensees. Patent hold-up, backed by the threat of a possible injunction or exclusion order, places such potential new entrants in an untenable position from the outset—they must either pay unreasonable royalties and hobble their ability to compete with more established participants, or forgo compliance with the standard (and be excluded from relevant technology markets as a result). This threat is exacerbated by the existence of thousands or tens of thousands of SEPs that may be implemented in a single device—resulting in literally thousands of opportunities for hold-up. As a result, hold-up behavior by even a fraction of all SEP holders can result in an overall royalty burden that exceeds the price of a given end product, a daunting hurdle to all market participants but especially to those potential new entrants who are not already invested in the market.

9. In considering the public interest factors in a 337 case, should the International Trade Commission look only at the public interest ramifications of the exclusion order at issue, or should it consider broader long-term public interest effects? For example, in a case involving a standard essential patent, should the International Trade Commission

consider whether an exclusion order will enable patent hold up and undermine the standards setting process?

A. For all Section 337 cases, including those FRAND cases that are appropriately before the ITC (*e.g.*, where a prospective licensee is unwilling to pay an adjudicated FRAND license or is not subject to the jurisdiction of federal district courts), Section 337 of the Tariff Act requires the ITC to consider the effect of a possible exclusion order on the public interest. Specifically, the statute requires considering the impact of such an order on "public health and welfare, competitive conditions in the United States economy, the domestic production of like or directly competitive articles in the United States, and United States consumers."[23] As the ITC itself has observed, these public interest factors "are not meant to be given mere lip service," but rather "public health and welfare and the assurance of competitive conditions in the United States economy must be the overriding considerations in the administration of this statute."[24] This all-encompassing language mandates that all relevant aspects of the public interest be examined and, certainly, hold-up and its impact on standard-setting activities fall within the scope of this mandate.

Given the crucial role of FRAND commitments in promoting interoperability of products that are essential to modern life and in preserving competition, the ITC must consider the larger policy implications of whether a particular exclusion order will enable patent hold-up and undermine the standard setting process. This principle is supported by testimony of both the DOJ and the FTC, before this Committee, that "[i]n an era where competition thrives on interconnected, interoperable network platforms, these [public interest] considerations merit special attention."[25] Thus, under "its public interest obligations,"[26] the ITC "should be certain to (1) to examine thoroughly 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 related to these issues."[27] This detailed scrutiny is particularly appropriate in the case of modern complex products that incorporate hundreds of standards—each of which can itself include thousands of SEPs—because of the vast opportunities for hold-up presented by such products.[28] Notably, in the parallel context of injunctive relief requests, Justice Kennedy has

[23] 19 U.S.C.A. § 1337(d)(1).

[24] *Certain Inclined Field Acceleration Tubes and Components Thereof*, Inv. No. 337-TA-67, USITC Pub. 1119, Comm'n Op., at 21-22 (Dec. 1980) (citation omitted).

[25] Statement Of Joseph F. Wayland, Acting Asst. Attorney Gen., Antitrust Div., Dep't of Justice, Before the Comm. on the Judiciary, U.S. Senate, Regarding Oversight of the Impact on Competition of Exclusion Orders to Enforce Standards-Essential Patents, at 11 (July 11, 2012), *available at* http://www.justice.gov/atr/public/testimony/284982.pdf ("Wayland Testimony").

[26] FTC Statement, at 1-2 (July 11, 2012).

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

[28] *See, e.g.*, Wayland Testimony, at 10 (The ITC may appropriately find that "an exclusion order is not in the public interest even where infringement is found because the value or importance of the infringed patent to the assembled good is dwarfed by the overall value of the assembled good

observed that, "when the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, … an injunction *may not serve the public interest*."[29]

The broader long term impact on public interest must be a *principal* consideration under the public interest standard because the failure to give full effect to FRAND commitments weakens the "competitive conditions in the United States economy" and diminishes the welfare of "United States consumers" by permitting hold-up.[30] Allowing an SEP holder to obtain an injunction or exclusion order against a party willing to pay FRAND royalties would empower SEP holders to extract a disproportionate share of the value of accused products, making an unreasonably high settlement the only plausible outcome, and thereby raising prices to consumers. An exclusion order would thus force implementers to choose between withdrawing products from the market or paying far more than a FRAND royalty, and competition and consumers would be harmed in either event. Moreover, if SEP holders can unfairly exploit a standard-derived market power through exclusion orders, companies might become reluctant to participate in SSOs, to agree on standards, and to incorporate them into their products. This in turn will adversely affect U.S. innovation, economic growth, and consumer welfare.

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or the patented aspect is not important to the operation of the good, and a broad exclusion order would be tantamount to denying the public the assembled good for a period of time.").

[29] *eBay*, 547 U.S. at 396 (emphasis added).

[30] 19 U.S.C.A. § 1337(d)(1).