PUBLIC

UNITED STATES INTERNATIONAL TRADE COMMISSION
WASHINGTON, D.C. 20436

Before The Honorable David P. Shaw
Administrative Law Judge

In the Matter of **CERTAIN ELECTRONIC DEVICES, INCLUDING CERTAIN WIRELESS COMMUNICATION DEVICES, TABLET COMPUTERS, MEDIA PLAYERS, AND TELEVISIONS, AND COMPONENTS THEREOF**	Investigation No. 337-TA-862

SAMSUNG RESPONDENTS' RESPONSE TO ERICSSON'S NOTICE OF NEW AUTHORITY

Ericsson's "Notice of New Authority" misinterprets the USTR's August 3, 2013 Letter ("USTR Letter"), which disapproved an exclusion order issued in the 794 Investigation on public interest grounds. To be sure, the USTR Letter is important, new authority that affects the 862 Investigation and other current and future investigations in which complainants assert declared essential patents. The USTR Letter does not and could not, however, provide supplemental jurisdiction to the ITC to set unilateral FRAND royalty rates for patent portfolios. Rather, the USTR Letter adopts the view of the Department of Justice and other regulators that ITC exclusion orders are not an appropriate remedy for violations of standard essential patents (SEPs) except under limited circumstances. Where, as here, the parties' only real dispute is one over how much a licensee should pay as a FRAND royalty—not whether it will pay—and other remedies exist, the USTR Letter recognizes the licensor's proper recourse is in the courts (or private adjudication, such as arbitration, as Samsung repeatedly has offered to Ericsson). As a result, the impact of the USTR Letter on this Investigation is that Ericsson cannot show Samsung is an unwilling licensee where Samsung has negotiated in good faith, made reasonable FRAND offers, proposed arbitration, and never stayed the co-pending district court case containing the same patents-in-suit as an alternative forum for resolution.

Ericsson's suggestion that the ITC could and should enter the business of setting unilateral FRAND royalty rates, on a portfolio-wide basis, for patent licensing companies like Ericsson—thus encouraging unwarranted SEP litigation in the ITC—is wrong and inconsistent with the USTR's letter and purpose. Moreover, even if it were proper, Ericsson's post-discovery request that the ITC now set a royalty between the private parties as part of the Investigation comes far too late and would require significantly different evidence and trial presentation. Thus, Ericsson's request should be seen for what it truly is: an attempt to co-opt the ITC into forcing Samsung into paying unreasonable royalties for a license to Ericsson's SEPs. This is precisely the kind of holdup to which the USTR letter is addressed, and that Samsung, through its expert witness Professor Joseph Farrell, has demonstrated to be harmful to the long-term interest of consumers and innovation in the United States.

I. The USTR Letter Limits Availability of Exclusion Orders for SEPs to Cases Involving Clearly Unwilling Licensees

The USTR Letter disapproved the June 4, 2013 exclusion order issued in the 794 Investigation based on an SEP violation. The USTR's disapproval was not based on challenging the ITC's "legal analysis or its findings based on its record." *USTR Letter* at 3. Rather, the USTR's decision was based solely on "policy considerations" as "they relate to the effect on competitive conditions in the U.S. economy and the effect on U.S. consumers." *USTR Letter* at 3. In particular, the USTR pointed to the concerns expressed in the joint policy statement issued by the Department of Justice and the United States Patent and Trademark Office titled "Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary FRAND Commitments" (the "Policy Statement"). *USTR Letter* at 1–2. The USTR indicated that it "strongly share[s]" the "substantial concerns" expressed in this Policy Statement "about the potential harms that can result from owners of standards-essential patents ('SEPs') who have made a voluntary commitment to offer to license SEPs on terms that are fair, reasonable, and non-discriminatory ('FRAND'), gaining undue leverage and engaging in 'patent hold-up', *i.e.*, asserting the patent to exclude the implementer of the standard from a market to obtain a higher price for use of the patent than would have been possible when the standard was set, when alternative technologies could have been chosen." *USTR Letter* at 2.

The USTR did not categorically rule out the availability of exclusion orders for cases involving SEPs, but noted the narrow circumstances where "[a]n exclusion order may still be an appropriate remedy," explaining that "exclusionary relief from the Commission based on FRAND-encumbered SEPs should be available based only on the relevant factors described in the Policy Statement." *USTR Letter* at 2. Such circumstances may exist where, for example, "a putative licensee refuses to pay what has been determined to be a FRAND royalty, or refuses to engage in a negotiation to determine F/RAND terms." *USTR Letter* at 2, n.3.

Importantly, the USTR was clear that, notwithstanding the limited availability of exclusion orders for violations based on SEPs, the SEP owner would still have a remedy. *USTR Letter* at 4 ("My decision to disapprove this determination does not mean that the patent owner in this case is not entitled to a remedy."). That remedy, however, was not an exclusion order in the ITC but rather that "the patent owner may continue to pursue its rights through the courts." *USTR Letter* at 4.

In sum, the USTR Letter advocates the limited availability of exclusion orders for SEP-based violations to only those circumstances involving clearly unwilling potential licensees or where there may be no other remedy, and otherwise recognizes that the proper remedy for FRAND-encumbered SEPs should be decided be in the courts (or private adjudication by a neutral third party).

II. Ericsson's Arguments Misconstrue the USTR Letter, Are Inconsistent with the Law, and Are Unworkable in Practice

In its Notice of New Authority, Ericsson misconstrues the USTR Letter in multiple ways.

A. Ericsson is Incorrect That The USTR Letter Provides That An Exclusion Order Should Issue If Ericsson Has Made A FRAND Offer

Ericsson first incorrectly argues that the USTR Letter provides that an exclusion order may issue for a violation of SEPs if the ALJ finds that Ericsson's offer complies with FRAND:

> First, whether the licensing offers extended by Ericsson to Samsung during their negotiations comply with FRAND--if so, any exclusion order in this Investigation

> should be conditioned on Samsung's refusal to accept the terms that have been adjudicated FRAND.

Ericsson Notice at 4.

Contrary to Ericsson's argument, the USTR Letter does not provide that an exclusion order may issue if Ericsson made an offer that "complies with FRAND," but rather the USTR Letter instructs that an exclusion order should not issue on public interest grounds unless it is shown that Samsung was unwilling to negotiate for a FRAND license. *USTR Letter* at 2, n.3. To be sure, whether Ericsson has made a FRAND offer is before the Commission as part of Samsung's affirmative defenses. If, however, the Commission finds that Samsung failed to prove Ericsson did not make a FRAND offer, that provides no basis for an exclusion order on SEPs to issue. Rather, the USTR Letter is clear that the public interest focus is on whether the potential licensee, here Samsung, refused to negotiate or refused to pay a neutrally-adjudicated FRAND royalty. *See USTR Letter* at 2, n.3 ("An exclusion order may still be an appropriate remedy in some circumstance, such as where the putative licensee is unable or refuses to take a FRAND license . . . ."). Significantly, these same circumstances arose in the 794 Investigation where the Commission found the respondent (Apple) failed to prove its affirmative defenses based on a failure to make a FRAND offer but the USTR nonetheless disapproved the exclusion order. Thus, the USTR directly rejects Ericsson's argument that an exclusion order may issue upon a finding that a FRAND offer was made.

Ericsson's argument that making a "FRAND offer" is the legal threshold for issuing an exclusion order incorrectly forecloses that both parties can make good faith offers consistent with their FRAND obligations but nonetheless be unable to reach agreement. As explained in the 794 Investigation, a "FRAND license could encompass a range of reasonable terms" and may be in the form of a cross license or involve a balancing payment. *794 Comm'n Op.* at 60-61

(July 5, 2013) (public version). There is much room for dispute as to the license terms. Nothing in the USTR Letter suggests or implies that an exclusion order could issue if both parties are acting in good faith and there is a bona fide dispute about the FRAND royalty. Instead, the USTR Letter provides that no exclusion order should issue in that situation because there is no "unwilling" party to the negotiation. *USTR Letter* at 2.

B. Ericsson Incorrectly Argues That The USTR Letter Provides That the ITC Should Set Unilateral FRAND Patent Portfolio Royalties

Ericsson's second proposed reading of the USTR Letter is equally problematic. Ericsson wrongly argues that if the ALJ finds no FRAND offer was made, the ALJ should make his own finding of the proper royalties that Samsung should pay for Ericsson's four different SEP patent portfolios:

> [T]he ALJ should go on to determine what royalty rate (and any other terms) would comply with FRAND—then condition any exclusion order on Ericsson offering those terms to Samsung and Samsung refusing to accept them.

Ericsson Notice at 4.

This proposal is without basis in the law, unworkable, and inconsistent with the USTR Letter.

First, the USTR did not purport to (and could not) confer supplemental jurisdiction on the ITC to determine and set a royalty for SEP portfolios for private parties that cannot agree on terms. The ITC is, of course, "a creature of statute, and must find authority for its actions in its enabling statute." *See Kyocera Wireless Corp. v. Int'l Trade Comm'n*, 545 F.3d 1340, 1355 (Fed. Cir. 2008). As relevant here, this Investigation was instituted under the ITC's Section 337 jurisdiction. To determine a violation of Section 337, the ITC may have to determine whether a licensor violated its FRAND obligations to a standard setting organization as part of the respondent's affirmative defenses. That inquiry does not, however, require determination of what the proper FRAND royalty would be between two parties, particularly where, as here, the license dispute includes patents not before the Commission including those as part of a cross-license. Similarly, the USTR's public interest inquiry does not require the ITC to make a finding as to the proper royalty between two parties. Rather, it requires a finding as to whether the potential licensee negotiated in good faith, including whether the SEP holder made offers that were reasonable on their face, or so extreme that no counterparty could accept them, and bad faith cannot be inferred merely from the fact that the parties have failed to reach agreement as Ericsson implies. In sum, no defense and no public policy concerns identified by the USTR require or authorize resolution of the price term in the private cross-licensing dispute between Ericsson and Samsung as part of the Commission's Section 337 Investigation.

Second, Ericsson's proposal that the ITC engage in the business of setting license royalties is unworkable. Ericsson asks the ALJ to decide the license royalty terms for its worldwide SEP portfolios covering four different standards. Ericsson Notice at 7 (The ALJ "should make an in-depth evaluation of whether Ericsson has offered FRAND terms to Samsung and if not, what would constitute FRAND terms for Ericsson's standard essential patents."). Most of these patents are not before the ALJ—Ericsson claims to hold hundreds more patents than those at issue in the 862 Investigation. As explained by the USTR, an analysis of the value of an SEP requires an analysis of the value of the patent *ex ante* before the standard was set. *USTR Letter* at 2 (patentees improperly seeking "a higher price for use of the patent than would have been possible before the standard was set"). As a result, the majority of the patents for which the ITC will be setting a specific royalty would then be for patents for which it lacks evidence and argument. Thus, Ericsson seeks a binding determination on the value of patents (including foreign patents) not before the Commission.

Moreover, this FRAND licensing dispute involves a cross-license to Samsung's substantial patent portfolio. In the 794 Investigation, the ITC noted that cross-licenses are "typical in the industry," may be "consistent with FRAND," and require balancing payments between the parties. Here, the parties have two prior cross-licenses (covering many of the same patents) as benchmarks and this litigation arises from their unsuccessful attempts to conclude a third cross-license agreement. From Samsung's perspective, any determination of a FRAND royalty between Samsung and Ericsson must take into account the value of a cross-license to Samsung's SEPs as well as the parties' previous agreements. That evidence, in substantial part, is not before the Commission in this Investigation. Simply put, even if determining a specific FRAND royalty on a portfolio basis were an appropriate exercise in a Section 337 Investigation, resolution of these issues would require a substantially different evidentiary and expert record than the one presented in the 862 Investigation.

Third, Ericsson's proposal is inconsistent with the USTR Letter. The USTR Letter recognizes that injunctive relief, like exclusion orders, on SEPs raise hold-up concerns counter to the public interest and that an SEP holder's primary remedy lies in the courts, which have a larger range of potential remedies, not in the ITC. These concerns include the undue bargaining leverage a licensor may gain through the threat of an exclusion order. *USTR Letter* at 2. As explained by Dr. Farrell, Samsung's expert and former DOJ/FTC chief economist, a primary concern of regulators is the threat of an exclusion order distorting the private bargaining between parties on SEPs in a manner that harms U.S. consumers and long-term competition and innovation. Farrell Witness Statement at 2. Here, Ericsson's proposal would further encourage, not discourage, SEP enforcement in circumstances where such an enforcement campaign is not warranted. Indeed, licensing companies, typically non-practicing entities that seek ever higher royalties with little or no concern for the value of the technology or cross-license (which could only be determined in a separate proceeding) would likely welcome the opportunity to have the ITC determine unilateral license rates under the shadow of a potential exclusion order—raising the identical concerns that the USTR cited in disapproving the exclusion order.

Similarly, deciding a specific rate only for Ericsson's SEPs without regard to any cross-license is counter to the purpose of the USTR Letter of keeping the threat of exclusion orders from altering SEP license negotiations. If the ITC were to choose to set unilateral portfolio rates as part of its Investigations, it would improperly tilt the scales in SEP negotiations in favor of patent licensing entities (like Ericsson) and, against standards implementers (like Samsung) that follow industry cross-licensing practices. On this point, Ericsson's motives in seeking to impose its unilateral FRAND rates through the threat of an exclusion order are clear: Ericsson's primary request is an exclusion order because Samsung will not accept its terms; its request that the Commission set unilateral rates is only if the Commission finds that Ericsson failed to make a FRAND offer in the first place. Ericsson Notice at 4.

III. Ericsson Incorrectly Argues that the Parties Have Prepared Their Cases for the Commission to Decide the License Royalty Terms

Ericsson also incorrectly argues that the parties are prepared to argue the proper royalties for Ericsson's patents essential to the 2G, 3G, 4G, and 802.11 standards. As explained above, the issue of the proper royalty for a cross-license has been a subject of negotiation, not litigation. At trial, Samsung is prepared to show Ericsson's offers to license its SEPs after the expiration of the parties 2007 license agreement are unreasonably high—seeking billions more than the previous license agreements—and that these offers are inconsistent with FRAND. At trial, Samsung also is prepared to show that it, unlike Ericsson, has at all times acted in good faith and has been willing to negotiate, to arbitrate, and to litigate in the district courts if agreement cannot be reached. Samsung has not, however, prepared the specific analysis endorsed by the USTR, by industry experts, and by the courts for ascertaining the specific values for an Ericsson SEP-only portfolio license. It has not done so because those price terms are thus far not an issue in this investigation. And it is not otherwise required to do so as part of its FRAND obligations where, as here, Samsung has prepared and justified offers based on cross-licenses; an approach endorsed by the Commission and consistent with industry practice and these parties' prior practices.

To the extent the Commission decides that it is appropriate to decide specific royalties for Ericsson's SEPs substantially more discovery and time would be necessary, given the issues outlined above. In any case, as only a small subset of Ericsson's alleged SEPs are before the Commission, even were it to take up the royalty term issue as to the patents in suit, it could not do so as to the entirety of Ericsson's SEP portfolios.

IV. Under the USTR Letter, Ericsson Cannot Obtain an Exclusion Order

Although Samsung disagrees with Ericsson's interpretation of the USTR Letter, Samsung agrees with Ericsson that the USTR Letter is important new authority for the 862 Investigation. It is important because, under the standard USTR applied in disapproving the exclusion order in the 794 Investigation, Ericsson cannot obtain an exclusion order in the 862 Investigation.

Samsung has at all times been a willing licensee in its dispute with Ericsson. The record evidence on this fact is decisive. As Ericsson acknowledges, Samsung and Ericsson have had extensive license negotiations starting months before the 2007 patent license was set to expire. Ericsson Notice at 5. Those negotiations, which have occurred all over the world, are still on-going and reveal a bona fide dispute about the appropriate royalty for the parties' respective 2G, 3G, 4G and 802.11 standard essential patent portfolios. *Id.*

In those negotiations, Samsung has made multiple offers to Ericsson. While those offers apparently do not include enough money for Ericsson, they do reflect a vast and principled increase in licensing revenue from Samsung to Ericsson over the prior two licenses combined. Under no objective standard could this substantially more favorable offer to Ericsson, which covers many of the same previously licensed patents, be characterized as a "refusal to negotiate." Moreover, while Ericsson now prefers to exchange only unilateral, running royalty license offers, Samsung's license offers have been identical to the types of offers that the parties exchanged in their prior two successful license negotiations. Samsung has made cross license offers based on lump sum royalties and balancing payments. In fact, Ericsson's legal officer responsible for this litigation concedes that the prior

In addition to making reasonable offers to Ericsson, Samsung also has, on numerous occasions, offered to have the parties' dispute resolved through binding, neutral arbitration. In particular, the parties actively are discussing the possibility of having the FRAND terms and conditions for a cross-license to their respective SEP portfolios set by an arbitration panel.

Ericsson's request for an exclusion order is inconsistent with the DOJ/PTO Policy Statement approvingly cited in the USTR Letter because there are other available remedies for Samsung's alleged infringement of Ericsson's SEPs. Ericsson has admitted

Samsung, however, has before and after the filing of Ericsson's complaint been willing to arbitrate the license amounts in dispute. Samsung also did not stay the companion district court case that Ericsson filed, as was Samsung's right, with the express expectation that if the parties could not reach agreement, they may need to litigate in the district court. Ericsson has raised the same FRAND arguments in the district court that it raises here. Thus, consistent with the USTR's reasoning and with the public policy considerations set forth in 19 U.S.C. § 1337(d)(1), this dispute can be and should be resolved in other available forums.

It bears emphasis here that Ericsson's improper and untimely request that the ITC bless or otherwise determine its unilateral SEP license rates substantially ignores the USTR guidance on exclusion orders. Samsung is the only party that has addressed the proper public interest arguments that the USTR Letter raises. Samsung presented evidence and argument, including through its expert Dr. Farrell, on why no exclusion order should issue under the Policy Statement. That same Policy Statement was later endorsed by the USTR. By contrast, Ericsson substantially ignored Dr. Farrell's analysis and dismissed the hold-up concerns reflected in the USTR Letter and Policy Statement as without basis.

* * *

Samsung agrees that the USTR Letter has an important impact on this case but not for the reasons Ericsson argues. Neither the 794 Investigation Commission Opinion nor the USTR letter determined a FRAND royalty between the litigants in the 794 Investigation and there is no reason the Commission should do so here. The USTR did, however, determine that an exclusion order for SEPs was inappropriate in the 794 Investigation as a matter of public policy. For the same reasons set forth in the USTR Letter, no exclusion order is appropriate for public policy reasons in this Investigation. Accordingly, Samsung submits that the proper course of action for this investigation, following the USTR Letter, is for Ericsson promptly to seek to terminate its SEPs from the investigation.

Respectfully submitted,

FISH & RICHARDSON P.C.

Dated: August 26, 2013

By: *<u>/s/Michael J. McKeon</u>*

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CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing document:

SAMSUNG RESPONDENTS' RESPONSE TO ERICSSON'S NOTICE OF NEW AUTHORITY (PUBLIC),

have been filed and served on this 26th day of August, 2013, on the following:

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