

CLIENT ALERT

FTC Urges ITC to Deny Exclusion Orders for RAND-Encumbered Standard Essential Patent Holders

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The Federal Trade Commission ("FTC") recently submitted comments to the U.S. International Trade Commission ("ITC") opposing the issuance of exclusion orders banning imports of products that infringe on RAND-encumbered standard essential patents (SEPs) in two investigations. Specifically, the FTC argued that the threat of an exclusion order would give the SEP holder leverage to extract royalties that are not reasonable and that an exclusion order would therefore be anticompetitive. The FTC went further in expressing skepticism that exclusion orders are appropriate in any investigation involving RAND-encumbered SEPs. The FTC's comments, made in the context of a major uptick in ITC cases, reflect increased interest by antitrust regulators in intellectual property issues generally and in standard setting activities in particular that could have implications for the broader interplay between antitrust and patent law.

The FTC's comments were submitted in the context of two separate investigations brought by Motorola Mobility (which was recently acquired by Google) against Microsoft and Apple. In both investigations, the respective presiding Administrative Law Judge found that Microsoft's Xbox and Apple's iPhone infringe on Motorola Mobility's patents. Those patents are RAND-encumbered SEPs, which means that practicing those patents is necessary to comply with common standards set by the industry to ensure compatibility and interoperability of devices and that, as the price of participating in the standard setting process, the SEP holder had to agree to license the patents on rreasonable and non-discriminatory ("RAND") terms.

The investigations are now moving to the remedy phase where the ITC will consider whether to issue exclusion orders banning imports of infringing products. Both Administrative Law Judges presiding at trial recommended the ITC issue such orders.

The ITC is authorized to issue an exclusion order upon a finding of infringement and other statutory requirements unless it finds that barring infringing products from the market negatively impacts the public interest, including harm to domestic competitive conditions or consumers. While the ITC has declined to issue an exclusion order on public interest grounds, it has not done so in the recent past. By statute, the ITC may consult with other agencies "as it considers appropriate," but it is not required to follow their recommendations. In practice, agency comments are infrequent and the degree to which the ITC will defer to them is largely untested.

The FTC argued that excluding products found to infringe on RAND-encumbered SEPs has significant potential to harm U.S. competition by allowing the SEP holders to charge royalties that are not "reasonable" – i.e. that substantially exceed any objective measure of their value. Once an industry adopts standards, deviating from them can become extremely expensive for a company. The ability to litigate a SEP to obtain an exclusion order would, the FTC said, allow SEP holders to negotiate royalties not based on the reasonable value of the patent, but based on the costs and delays of being forced to design around the standard – which is contrary to the SEP holder's commitment to license on reasonable terms. The FTC argues, therefore, that to avoid allowing the standard itself to become anticompetitive, no exclusion orders should be issued based upon RAND-encumbered SEPs without a reasonable royalty rate having been offered. In the alternative, the FTC asked the ITC to delay

issuance of an exclusion order until the parties negotiate damages for past infringement or a reasonable royalty. As the FTC pointed out, the ALJ already held that the royalty rate offered to Microsoft (2.25%) was not reasonable.

SEP holders and intellectual property and antitrust practitioners should pay close attention in the coming weeks, as we await not only the ITC's decisions but comments from the Department of Justice, which indicated that it, too, would have a position to take on the issue before the ITC. Because the ITC has become an attractive venue for bringing patent cases based on its ability to ban infringing imports, the ITC's ruling here on RAND-encumbered SEPs may have some implications for future venue trends. Likewise, these decisions may signal a renewed role for antitrust in patent litigation remedies and other intellectual property disputes.

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