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SEPs At The ITC: Guidance From Recent Decision


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Law360, New York (October 6, 2016, 12:42 PM EDT) -- In a newly issued statement, the U.S. International Trade Commission once again made it clear that standard-essential patents may be asserted at the ITC, and will be treated no differently than other patents asserted in a Section 337 investigation. Issues of standard essentiality will be addressed — under the commission's statutory obligation to assess an exclusion order's impact on the public interest — only after it has been determined that a violation of the statute has occurred. Such issues, therefore, are not appropriate for resolution through the ITC's Early Disposition Pilot Program.

This decision helps dispel the misplaced notion that an SEP patent owner cannot effectively use the ITC to address the infringement of its patents licensed on fair, reasonable and nondiscriminatory terms where an implementer has "held out" from taking a license. The decision further clarifies and emphasizes that the pilot program is available only for a narrow set of jurisdictional issues, which, if adjudicated promptly, could dispose of the investigation entirely, not just in part.

100-Day Pilot Program

In June 2013, the commission initiated the 100-day pilot program, designed to test whether the early disposition of dispositive issues in ITC investigations would "limit unnecessary litigation, saving time and costs for all parties involved." In these cases, the commission requires the presiding administrative law judge to: (1) order discovery taken early on a potentially dispositive issue, such as the existence of a domestic industry (a mandatory showing by any complainant seeking an ITC exclusion order); (2) if necessary, conduct an early hearing on the potentially dispositive issue; and (3) issue an initial determination within 100 days of institution. Some believed that the utilization of the pilot program would or should be limited to threshold jurisdictional issues, such as domestic industry, importation, and/or standing.

Since its initiation in 2013, the commission has ordered the pilot program for only three types of circumstances, which have been limited to case dispositive issues of determining whether a complainant had the requisite domestic industry or standing to assert the patents in question or, most recently, determining the validity of the asserted patents under the rubric of Alice.[1]

If the request for inclusion in the pilot program is granted, even if the complainant overcomes the issue at an early hearing, the target date of the investigation will very likely be longer than normal. In the 949 Investigation (the only investigation yet to survive the pilot program), the ALJ ordered a 19-month target date — far longer than the usual 15- or 16-month target date. Because all relief in the ITC is prospective in nature, any delay in the target date is beneficial to respondents. Thus, participation in the pilot program is a win-win for respondents — if they are successful during the expedited hearing, the investigation will be dismissed early, but if they are not successful, they have bought additional time to continue importing their products.

As a result, respondents have routinely requested that the commission assign issues, which are not case-dispositive or otherwise ripe for adjudication, to the pilot program.[2] Previously, such requests have been met by silence in the commission's follow-on notice of institution. However, more recently the commission has provided affirmative guidance regarding the types of issues that are not appropriate for the pilot program.

Standard-Essential Patents and Public Interest

In the matter of Certain Industrial Control System Software, Systems Using Same, and Components Thereof, Inv. No. 337-TA-1020, respondent 3S-Smart Software Solutions requested that the commission direct the presiding ALJ to issue an early determination under the pilot program as to whether all of the asserted patents are standard-essential and subject to mandatory licensing obligations pursuant to the OPC Foundation's intellectual property policy.[3]

Significantly, the underpinning of 3S' request was that "[d]etermining whether all of the asserted patents are SEPs is a necessary first step," to follow the guidance provided by the United States trade representative in the matter of Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers, Inv. No. 337-TA-794. 3S argued that it expected the OPC Foundation to issue an imminent decision as to the essentiality of the asserted patents, and that, as a co-member of the OPC Foundation with 3S, the complainant would "be required to license those patents to 3S and all Foundation members on a royalty-free basis" if deemed standard-essential. 3S also suggested that "making a determination on this SEP issue at the earliest possible stage" will "allow the parties to develop the record accurately" for the USTR to conduct a fulsome policy review of any remedial orders on the public interest.

Despite perceptions to the contrary, the USTR's guidance does nothing to tip the scale in favor of infringers.[4] The USTR has only vetoed one ITC exclusion order in recent years. Careful examination of the USTR's statement in that investigation reveals a balanced framework, which is designed to get to the heart of the binary event that led the parties to the ITC in the first place — that either hold-up or hold-out has occurred because the market mechanisms for SEP licensing were broken.

The importance of hold-up/hold-out inquiry is that it has a direct bearing on the question that the commission must resolve upon a finding of a violation — whether an exclusion order would hurt or advance the public interest. As the USTR's statement notes, the public interest may be harmed if the SEP owner "assert[s] the patent to exclude an 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."[5] Conversely, as the statement also notes, the public interest may be harmed by allowing an infringer to engage in reverse hold-up (i.e., hold-out) by "constructive[ly] refusing to negotiate a FRAND license with the SEP owner or refusing to pay what has been determined to be a FRAND royalty."[6] Consequently, the USTR's guidance directs the commission to consider public interest implications of, and make explicit findings on, standard-essentiality of asserted patents (if disputed), patent hold-up, and patent hold-out.[7] And unless the commission determines that barring the importation of infringing articles would be contrary to the public interest, it "shall" issue an exclusion order.[8]

However, the framework provided in the USTR's guidance, and the ITC's decisions on public interest considerations more generally, were never intended to impose a jurisdictional hurdle that must be met before an investigation may proceed. Rather, the commission has always assessed the impact of exclusionary relief on the public interest only after it has been determined that a violation of the statute has occurred. The fact that SEPs are involved changes nothing. The commission's decision in the 1020 Investigation underscores this point, first by recognizing SEP issues to be "pertinent to the statutory public interest factors," and second by making it clear that it will assess the public interest only after a violation has been found.[9] Specifically, the commission determined that the SEP issues could not be "resolved at the beginning of an investigation" because "[t]he Commission assesses the effect of potential remedies on the statutory public interest factors following an affirmative determination on violation — once the actual scope of the Section 337 violation is determined, including the scope of valid and enforceable IP rights that are infringed … as well as the scope of imported infringing products involved."[10]

In this statement, the commission provided guidance on two important issues. First, it made it clear that issues of whether asserted patents are standard-essential and related inquiries, such as whether they are subject to compulsory licensing or what constitutes a FRAND rate, relate to the public interest solely, and are not relevant to the decision of whether or not a violation has occurred. Second, the commission has implicitly stated that use of the pilot program to resolve any issues relating to public interest is inappropriate.

Nondispositive Issues

Respondent 3S also requested assignment into the pilot program given that its activities are restricted to digital licensing and therefore do not constitute a "sale for importation … of articles" under 19 U.S.C. § 1337(a)(1)(B).[11] However, the commission declined to assign the issue for early resolution, noting that the request "relate[d] to the activities of one of the three Respondents" and consequently did "not involve an issue that is dispositive of the entire investigation." [12] This outcome comes on the heels of, and is consistent with, the commission's decision in the matter of Certain Quartz Slabs and Portions Thereof II, Inv. No. 337-TA-1017, in which respondents Vicostone Joint Stock Company and Stylen Quaza LLC requested that the commission utilize the pilot program to adjudicate patent validity issues. Noting that the request related to only two of the five asserted patents, the commission declined to order assignment to the pilot program because the request did "not involve a case dispositive issue."[13]

Conclusion

The ITC is open for business for SEPs, as has always been the case. Where the administrative record demonstrates that an implementer "held out" from taking a license, the issuance of an exclusion order serves and benefits the public interest. The decision in the 1020 Investigation helps dispel uncertainty regarding the ability to assert SEPs in the ITC and to what extent FRAND impacts the ability of the commission to provide relief.

In addition, while it remains to be seen whether the commission will continue to explicitly exclude other issues from resolution through the pilot program, these decisions are a win for patent owners who wish to leverage the ITC's rapid pace to a decision on the merits without experiencing undue delays.

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[1] See, e.g., Certain Products Having Laminated Packaging, Laminated Packaging, and Components Thereof, Inv. No. 337-TA-874, Initial Determination on the Economic Prong of the Domestic Industry Requirement (U.S.I.T.C. July 5, 2013) (ALJ Essex); Certain Audio Processing Hardware and Software and Products Containing Same, Inv. No. 337-TA-949, Notice of Commission Determination Not to Review an Initial Determination (U.S.I.T.C. July 13, 2015) (affirming finding of ALJ that complainant had standing to bring the investigation); Certain Portable Electronic Devices and Components Thereof, Inv. No. 337-TA-994, Notice of Institution (U.S.I.T.C. May 11, 2016)(ordering the presiding ALJ to conduct an early "pilot program" evidentiary hearing to determine whether the asserted patent claimed patent eligible subject matter in light of Alice).

[2] See e.g., Certain Computing & Graphics Systems, Components Thereof, & Vehicles Containing Same, Inv. No. 337-TA-984 (letter from Volkswagen to Secretary Barton requesting early disposition of the impact of a potential exclusion order on the public interest); Certain

Recombinant Factor VIII Products, Inv. No. 337-TA-956 (letter from Novo Norodisk requesting assignment to the pilot program for early disposition of a disputed issue of fact concerning infringement).

[3] See Certain Industrial Control System Software, Systems Using Same, and Components Thereof, Inv. No. 337-TA-1020 (letter from 3S requesting placement into the pilot program).

[4] See Letter From M. Froman to I. Williamson re Disapproval of USITC's Determination in the Matter of Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers, Inv. No. 337-TA-794 (Aug. 3, 2013).

[5] See id. at 2.

[6] See id.

[7] See id. at 3.

[8] See 19 U.S.C. § 1337.

[9] See Certain Industrial Control System Software, Systems Using Same, and Components Thereof, Inv. No. 337-TA-1020, Order Denying Request for Entry Into the Pilot Program (U.S.I.T.C. Sep. 13, 2016) at 2.

[10] See id.

[11] See Certain Industrial Control System Software, Systems Using Same, and Components Thereof, Inv. No. 337-TA-1020 (letter from 3S requesting placement into the pilot program).

[12] See Certain Industrial Control System Software, Systems Using Same, and Components Thereof, Inv. No. 337-TA-1020, Order Denying Request for Entry Into the Pilot Program (U.S.I.T.C. Sep. 13, 2016) at 1.

[13] See Certain Quartz Slabs and Portions Thereof, Inv. No. 337-TA-1017, Order Denying Request for Entry Into the Pilot Program (U.S.I.T.C. Aug. 11, 2016).
