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The ITC Should Put Its Foot Down on Patent Holdout and Holdup

By Jonathan J. Engler and Michael T. Renaud

Much ink has been spilled on the alleged risk of patent “holdup” in U.S. International Trade Commission (“ITC”) Section 337 investigations. The argument runs that owners of Standard Essential Patents (“SEP”) supposedly use the threat of ITC remedial orders to seek excessive license fees for patents that have been declared standard essential. Congress in 2016 went so far as to hold hearings as to whether the ITC was being abused by patent owners.¹ Critics have argued that the availability of ITC exclusion orders against products that infringe SEPs “inevitably” gives excessive bargaining power to the SEP holder and that “the mere threat of an exclusion order” would force an “implementer [of industry standards] to pay more than the *ex ante* economic value of the patented technology.”²

Jonathan J. Engler, a member of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., is an intellectual property litigator in the firm’s Washington, D.C., office. His practice emphasizes patent, trade secrets and trademark litigation at the U.S. International Trade Commission. **Michael T. Renaud**, is chair of the firm’s IP Division and head of the firm’s IP litigation and ITC practices and is located in Boston. He leads patent and trade secret litigation teams, and manages complex IP transactions. Both authors have successfully represented clients at the U.S. Court of Appeals for the Federal Circuit. They may be contacted at jjengler@mintz.com and mtrenaud@mintz.com, respectively.

The problem with the holdup argument is that has no basis in fact. There is no empirical evidence that patent owners, in fact, have achieved “disproportionate” or “excessive” leverage in ITC investigations. “It is [respondent]’s burden to show by a preponderance of the evidence that its FRAND defense precludes the Commission from finding a violation of section 337.”³ But no respondent in an ITC investigation has ever successfully proven an allegation of patent holdup. No ITC administrative law judge (“ALJ”) or the Commission has ever determined that a patent “holdup” has actually occurred such that remedial orders would be contrary to the public interest.

PATENT HOLDOUT

The evidence to date at the ITC may, in fact, indicate that the real problem is patent holdout, whereby respondents assert unsupported holdup arguments, unfairly absorbing party and agency resources, as a tactic to deter complainants.

In *Certain Wireless Devices*, for example, the ALJ found that “there was no evidence that InterDigital had attempted to hold up the respondents” and that “[w]hile there may be a hypothetical risk of holdup, we have evidence that it is not a threat in this case, or in this industry.” He found that there was no basis for the Commission to refuse to issue remedial orders based on “a speculative and

unproven position . . . without proof that the harm . . . exists.”⁴

Patent holdout at the ITC by complainants may be akin to the practice of “efficient infringement” where users of SEPs calculate that it will be less costly to infringe than to take a license to the asserted patents.

The Commission should not permit itself to become the enabler of either patent holdout or holdup. Fortunately, the agency has the ability to bring the SEP/FRAND issue to an early head in Section 337 investigations, thereby leveling the playing field and ensuring that no party is able to game the system. The Commission’s so-called “Pilot Program” allows ALJs to issue interim initial determinations (“IDs”) on “fewer than all issues in an investigation.”⁵ The program allows ALJs to quickly resolve “case-dispositive” or “significant” issues.⁶ ALJs may suspend the investigation’s procedural schedule so that parties may concentrate on developing a factual record as to the designated issue(s) and prepare for a limited evidentiary hearing.⁷

SECTION 337 INVESTIGATIONS

The Commission (or ALJ) accordingly, should, in any Section 337 investigation in which a respondent alleges in its Response to the complaint that the asserted patents are SEP and the complainant has not met its FRAND obligations:

- The private parties should be compelled at the outset to clearly state whether they are claiming that the asserted patents are SEP.
- Use the Pilot Program to issue an interim initial determination as to whether (a) a party has claimed the asserted patents to be SEP and, if so, whether (b) the complainant has met its obligation to offer a license on FRAND terms (i.e., whether patent holdup or holdout has taken place).
- A failure by the respondents to unequivocally claim – at the outset – that the asserted patents are SEP would immediately dispose of the FRAND/holdup issue. Vague assertions in the response to the complaint that the patents are SEP should not be sufficient to maintain this defense in a Section 337 investigation.

- If the respondent claims that the asserted patent claims are SEP, the ALJ should make an early determination whether the patent owner has met its FRAND obligations.

The ALJ, if the respondent claims the patents are SEP, need not make a detailed finding of standard essentiality. Instead, the ALJ need only determine whether the patents had been offered on a FRAND basis; essentiality would be presumed for purposes of the FRAND analysis.

- The analysis would be similar to early determinations as to whether a Complainant has met the economic domestic industry requirement: the Commission assumes, for purposes of the economic analysis, that the technical prong of the domestic industry requirement has been met.

Early resolution of the SEP/FRAND issue in this way would conserve agency and party resources and greatly simplify discovery and the evidentiary hearing. If the respondent does not claim the patents to be standard essential, then there can be no argument by the respondent that remedial orders would be contrary to the public interest on FRAND grounds.

Similarly, if the parties agree that the asserted patents are SEP, but the Commission finds that the complainant has failed to offer to license the patents on FRAND terms, an early determination can be made whether a remedy is inappropriate. This could save the Commission from the long and arduous process of finding a violation (requiring determinations, among other things, of patent invalidity, infringement, and the domestic industry issue).

CONCLUSION

In sum, the Pilot Program provides the Commission with an early and powerful means to deflate the SEP/FRAND issue and remove the threat of improper patent holdup or holdout in Section 337 investigations. By forcing the parties early on to clarify and support their SEP/FRAND positions, the Commission can ensure that neither complainants nor respondents are able to use Section 337 investigations to obtain improper leverage in settlement negotiations.

The Commission, moreover, by addressing these issues early in Section 337 investigations, can efficiently and proactively address USTR's request that the ITC determine whether holdup concerns preclude issuance of an exclusion order against a product that infringes a FRAND-committed SEP, while avoiding, in some cases, the unnecessary time and expense of reaching a violation on the merits.⁸

Notes

1. International Trade Commission Patent Litigation: Hearing Before the Subcomm. on Courts, Intellectual Prop. & the Internet of the H. Comm. on the Judiciary 4, 114th Cong. (2016) (Opening Statement of Rep. Jerrold Nadler, Ranking Member, Subcomm. on Intellectual Prop., Competition & the Internet).
2. Does the ITC Facilitate Patent Holdup? J. Gregory Sidak, *The Journal on Innovation* (2016), quoting Professor Fiona Scott Morton of the Yale School of Management and economic expert witness for consultancy Charles River Associates.
3. *Certain Electronic Devices*, Inv. No. 337-TA-794, Comm'n Op at 45.
4. *Certain Wireless Devices with 3G and/or 4G Capabilities & Components Thereof*, Inv. No. 337-TA-868, Pub. 2929, 2014 WL 2965327 (USITC June 13, 2014) (Initial Determination) at 80-83. The Commission ultimately found no violation on other grounds and did not reach the holdup issue in its opinion.
5. Pilot Program Will Test Interim ALJ Initial Determinations on Key Issues in Sec. 337 Investigations, https://www.usitc.gov/press_room/featured_news/337pilotprogram.htm (last visited Mar. 7, 2022) ("Pilot Program Press Release"). All investigations instituted after May 12, 2021, are eligible.
6. *Id.*
7. *Id.*
8. Letter from Michael B.G. Froman, Ambassador, Exec. Office of the President, to Irving A. Williamson, Chairman, U.S. Int'l Trade Comm'n at 3 (Aug. 3, 2013), https://ustr.gov/sites/default/files/08032013%20Letter_1.PDF.

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