

The Future Of Standard-Essential Patents At The ITC

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For the second time in four years, the U.S. International Trade Commission has been asked to exclude products from import into the United States based on patents that are allegedly essential to the practice of a standard, so called standard-essential patents. In the first instance, the ITC issued an exclusion order against Apple Inc. based on SEPs owned by Samsung Electronics Co. Ltd. In that case, it was undisputed that the patents at issue were SEPs, and the ITC determined that, despite Samsung's obligations to license on terms that are fair, reasonable and nondiscriminatory, it had the authority to issue an exclusionary order against Apple. That decision led the U.S. Trade Representative of the Obama administration to overturn an ITC exclusion order for the first time in 27 years. The Trade Representative noted that the owner of SEPs may not be entitled to seek exclusionary remedies where they were unwilling to satisfy their FRAND obligations.[1] In the second instance, on Oct. 3, 2017, Administrative Law Judge David P. Shaw released the public version of his initial determination in Certain Magnetic Data Storage Tapes and Cartridges Containing the Same, 337-TA-1012. This article reviews the initial determination and its implications on the future of SEPs at the ITC.



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Background

In its most recent foray into SEP assertion, the ITC considered Fujifilm's complaint against Sony in Certain Magnetic Data Storage Tapes. Fujifilm and Sony both make linear tape open (LTO-7) standard compliant magnetic data storage tapes. Fujifilm brought a complaint against Sony in the ITC seeking to exclude Sony's data storage tapes. As a condition to having their technologies incorporated into the standard, both Sony and Fujifilm signed agreements with the standard-setting organization that included a provision requiring the signatory to offer an option to license on FRAND terms any claim determined to be essential to the standard.

At the time of ALJ Shaw's initial determination, five patents were at issue. Three of those patents contained asserted claims that Sony contended were essential to the practice of the LTO-7 standard, and therefore subject to FRAND obligations. Sony contended that, although the standard did not explicitly require all of the elements stated in the claims, those claims were nonetheless essential because the standard either inherently required those limitations or the claims represented the only

commercially feasible manner of practicing the standard, and should therefore be considered essential to the standard.[2] Fujifilm and the commission investigative staff argued that the standard does not require all of the elements of the claims and therefore the claims are not essential to the standard.[3]

The Initial Determination

ALJ Shaw agreed with Fujifilm and the staff, ultimately finding that Sony's products infringed two of Fujifilm's patents.[4] Specifically, ALJ Shaw concluded "Sony ... has not shown that the LTO-7 standard requires a tape that meets the limitation[s]" of the claims.[5] Because the claims were not essential to the standard, ALJ Shaw also found that Fujifilm had not breached its contractual obligation to license the patents on FRAND terms.[6] Thus, ALJ Shaw avoided confronting the difficult issues surrounding the assertion of patents subject to FRAND obligations by holding that the patents were not essential to any standard.

Sony filed a petition for review of the initial determination challenging, among other things, ALJ Shaw's holding that the asserted claims are not essential to the LTO-7 standard and therefore not subject to FRAND obligations. In its petition, Sony argues that ALJ Shaw erred by holding that, in order to be considered essential, the LTO standard must expressly recite all of the claim's limitations.[7] According to Sony, the proper standard for essentiality should be whether the claims "are either technically or economically necessary to practice" the standard.[8]

Guidance on Essentiality

The fundamental disagreement between Fujifilm and Sony comes down to whether the asserted claims are "essential" under the agreement that the parties entered into with the SSO. Sony argued that the asserted claims are "essential," while Fujifilm argued that they are not. It is unusual that Sony, the accused infringer, was arguing that the patents were essential to the standard that it conceded it practiced. However, Sony seemed willing to pay the price of a FRAND license to avoid being excluded from the market entirely.

Typically, essentiality is a contractually defined term that is set forth in the agreement between the owners of SEPs and the SSO.[9] While the particular agreement at issue in this investigation is not part of the public record, it appears that the agreement did not set forth a clear definition of what constitutes an "essential" claim under the agreement. Against this backdrop, the commission now has a potential opportunity to clarify what the proper test is for essentiality in the absence of a contractually agreed-upon definition. At least two proposed definitions are presented in this case: (1) claims that "are either technically or economically necessary to practice" the standard or (2) claims having all of their limitations explicitly required by the standard. Alternatively, the commission may determine that some alternative test is appropriate for essentiality.

If the commission decides to review and reverse ALJ Shaw's initial determination as to essentiality, Sony may have a case for overturning the exclusion order with respect to the essential claims. It was undisputed during the proceeding that Fujifilm had not offered a license to Sony on the allegedly essential claims. Therefore, it may be difficult for Fujifilm to show that Sony is operating outside of the scope of Fujifilm's FRAND obligations. Unless Sony then refused to enter into licensing negotiations, or refused to license the essential claims on FRAND terms, Fujifilm would likely not be able to seek to exclude Sony's products based on the U.S. Trade Representative's decision in *Certain Electronic Devices* — that is, of course, unless the Trump administration chooses to overrule the previous determination of the Obama administration.

On the other hand, ALJ Shaw also held that breach of contract (in this case the contract between Fujifilm and the SSO) was not a defense to a claim for patent infringement before the ITC.[10] This holding seems to conflict with the Trade Representative's position in Certain Electronic Devices. Specifically, the Trade Representative seems to indicate that exclusionary remedies may be appropriate where the owner of SEPs is willing to satisfy their FRAND obligations. Based on these potentially conflicting holdings, there appears to be uncertainty regarding the implications of FRAND obligations on exclusionary remedies at the ITC.

Regardless of how the commission ultimately comes down on the test for essentiality, this case impresses on SSOs and parties seeking to have their technologies incorporated into standards the potential importance of having a clear definition of what constitutes an essential claim. Because FRAND obligations are contractual obligations, the parties to the contract are free to define the scope of those rights in any way that they wish. This onus may fall more heavily on SSOs that often possess the leverage in crafting the agreements with patent owners. Courts and the ITC already have their work cut out for them in determining what constitutes a FRAND royalty. Parties could potentially reduce their own litigation costs and streamline disputes over SEPs by insisting that SSOs include a definition of what constitutes an "essential" patent claim.

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[1] Disapproval of the U.S. International Trade Commission'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.

[2] Certain Magnetic Data Storage Tapes and Cartridges Containing the Same, Inv. No. 337-TA-1012, Initial Determination at 126 (Sept. 1, 2017).

[3] *Id.*

[4] *Id.* at 386

[5] *Id.* at 126, 206, 313.

[6] *Id.* at 367.

[7] Inv. No. 337-TA-1012, Respondent's Petition for Review of the Administrative Law Judge's Initial Determination (Sept. 28, 2017).

[8] *Id.*

[9] See *Microsoft Corp. v. Motorola, Inc.*, 2013 U.S. Dist. LEXIS 60233, *33 (W.D.Wash. Apr. 25, 2013).

[10] Certain Magnetic Data Storage Tapes and Cartridges Containing the Same, Inv. No. 337-TA-1012, Initial Determination at 366-67 (Sept. 1, 2017).

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