

Asserting RAND Defenses At The ITC: 3 Common Pitfalls

By **Brian Johnson** (April 6, 2020)

Reasonable and nondiscriminatory defenses at the U.S. International Trade Commission have always been rocky territory, but perhaps never more than they are now.

For well over a decade, respondents have been asserting RAND defenses, but to date, the commission has never denied a remedy on that basis. And now, a recent policy shift casts further doubt on the future of RAND.

In 2013, the administration of President Barack Obama made news by reversing an exclusion order covering Apple Inc. iPhones, marking the first time in decades the president has intervened.[1] In doing so, the administration suggested that this remedy was not in the public interest, expressing concerns with potential harms that can result when standard-essential patent owners gain undo leverage to demand above-market licensing fees.[2]



Brian Johnson

For support the administration highlighted a 2013 policy from the U.S. Patent and Trademark Office and the U.S. Department of Justice stating that issuing exclusion orders for RAND-encumbered patents may be contrary to the public interest.[3] At the time, this veto appeared to be a cautionary tale for SEP holders and a strong deterrent against asserting SEPs at the ITC.

But now, things have changed. The USPTO and DOJ have a new policy that states that patent owners' RAND commitments need not act as a bar to an exclusionary remedy.[4] This not only reverses their prior views in 2013 but undercuts a basis for the Obama administration's veto. And many commentators have suggested that the ITC may now be a favorable venue for SEP holders.

Nevertheless, RAND is still alive in the ITC. While the commission has never accepted a RAND defense, it also has never foreclosed the possibility of one. Instead, respondents continue to get tripped up on common obstacles, and, as a result, the commission has never been tasked with answering a fundamental question: Is an exclusion order appropriate for infringement of an essential patent?

Background on RAND

The concept of RAND defenses arose based on declarations made by companies to standard-setting organizations. Standards are developed by SSOs and often require pooled resources and ideas, in the form of technical contributions, from many different companies.

Ultimately, the SSO must decide between these competing contributions to develop a standard. The result is a single set of rules that every implementer must follow, which may be covered by SEPs owned by many different companies.

This poses a problem. If a single company chooses not to license its SEPs or to demand above-market fees that implementers cannot afford to pay, it has the ability to exclude companies from using the standard. Consider the problems, for example, if a single company wanted to deny the world the ability to use LTE cellular networks.

The solution has often been to require contributors to declare to SSOs that it will license its patents on RAND terms. Naturally, the specific meaning of such declarations has been disputed, leaving the courts to determine the contours of an SEP holder's RAND obligation.

And respondents in the ITC now often urge the commission not to issue exclusion orders when complainants have voluntarily entered into these RAND obligations. This is known as a RAND defense.

Three Pitfalls for Respondents to Avoid

Though no respondent has ever successfully brought a RAND defense, the missteps of past respondents have provided a road map of what not to do. That is, before the commission can even address the appropriateness of an SEP-based exclusion order, respondents must first prove that the complainant is subject to an enforceable RAND obligation. To do that, respondents should take care to address at least three key issues: jurisdiction, enforceability and essentiality.

Jurisdiction: Can the commission adjudicate the RAND dispute?

Respondents must plead its RAND defenses in a way that the commission can adjudicate. There are two options: affirmative defenses or public interest.[5] And until the commission provides more clarity on the correct approach, respondents would be prudent to plead both.

While public interest has been a common vehicle for RAND defenses, several opinions have suggested this may be the wrong approach. For example, back in 2013, then International Trade Commissioner Shara Aranoff suggested that the commission should only address RAND commitments, if at all, as an affirmative defense.[6]

Since then, Administrative Law Judge Sandra Lord affirmatively stated that RAND defenses did not fall into any of the public interest factors that the commission is empowered to review.[7] Then, in *Certain Memory Modules and Components Thereof, and Products Containing Same, or Netlist I*, Administrative Law Judge Charles Bullock similarly questioned whether those RAND disputes were reviewable by the commission as a public interest factor.[8]

For now, affirmative defenses appear to be a safer option. In *Certain Magnetic Data Storage Tapes and Cartridges Containing the Same*, the commission reviewed substantive issues of a RAND affirmative defense, never suggesting that it might not be capable of adjudicating the issue.[9] But be wary: If not properly pled, even RAND affirmative defenses have been struck in the past.[10]

Enforceability: Can respondents enforce RAND agreements?

Respondents should demonstrate that RAND agreements are enforceable. Though different ALJs have applied different tests, the safe approach is to analyze enforceability under the governing law identified in the RAND agreement.

For example, RAND agreements with the European Telecommunications Standards Institute are governed under French law, and decisions are split on whether these agreements are enforceable contracts. In a series of cases involving InterDigital Inc.[11], former Administrative Law Judge Theodore Essex initially held in *Certain 3g Mobile Handsets and Components Thereof* that the intellectual property rights policy of ETSI governing RAND obligations is not a contract and, therefore, not enforceable.[12]

However, later, in *Certain 3g Mobile Handsets and Components Thereof*, the same ALJ acknowledged that appellate courts have demonstrated that a contract analysis is the proper way to examine ETSI RAND obligations.[13] Even more recently, Administrative Law Judge MaryJoan McNamera reraised the question of enforceability of ETSI agreements under French law, citing yet another *InterDigital* case for support.[14]

Other RAND agreements have also been found unenforceable, such as the agreement governed by the Joint Electron Device Engineering Counsel. In *Netlist I*, even though no party contested enforceability, Chief Administrative Law Judge Charles Bullock sua sponte found that the JEDEC intellectual property rights policy must be interpreted under New York law and, under that application, it could not be enforced.[15] Bullock ruled the same way in *Certain Memory Modules and Components Thereof*, or *Netlist II*. [16]

Essentiality: Are the asserted SEPs actually essential?

Respondents must show essentiality of the asserted patents to bring any RAND defense. SSOs typically only apply RAND obligations to patents that are actually essential to a standard. While different SSOs have different definitions of essential, in general, an essential patent is one that is necessarily infringed by an implementor of the standard.

This is no easy feat. To decide on essentiality, the commission has been conducting highly technical analyses, tantamount to an infringement analysis. And ALJs have found patents to be essential on rare occasions. For instance, in *Certain 3g Mobile Handsets*, ALJ Essex found insufficient evidence that the patents at issue were essential.[17]

In *Certain Magnetic Data Storage Tapes*, Administrative Law Judge David Shaw underwent a substantive analysis for each patent, similarly concluding that they were not essential.[18] McNamera also found no claims essential in *Certain LTE- And 3G-Compliant Cellular Communications Devices*. [19]

However, where respondents did not contest essentiality, ALJs have understandably applied less scrutiny. In *Certain Gaming and Entertainment Consoles, Related Software, and Components Thereof*, Shaw simply treated the patents-in-suit as essential in evaluating RAND defenses, without specifically ruling on the issue.[20]

For *Netlist I* and *II*, essentiality was also not disputed and Bullock decided that a finding of essentiality, therefore, rose and fell with a finding of infringement. In *Netlist I*, there was no infringement and, therefore, no essential patents.[21] In *Netlist II*, there was a finding of infringement, hence, infringement of an essential patent.[22]

Future Developments

While many questions surrounding these issues remain, the commission soon has an opportunity to resolve them. *Netlist II* is now awaiting commission review, where the commission faces an unusual finding. Below, Bullock determined that the respondent has infringed a valid, essential patent.[23]

But despite objection from nonparties the JEDEC and the Federal Trade Commission, the ALJ found these agreements to be unenforceable.[24] The commission, therefore, has the opportunity to provide guidance on each of these common pitfalls and, possibly, develop its own policy on whether excluding products based on a violation of a RAND agreement is consistent with the public interest.

Correction: A previous version of this article incorrectly stated the findings of the Netlist I decision on enforceability of RAND agreements. The error has been corrected.

Brian Johnson is a partner at Steptoe & Johnson LLP.

The opinions expressed are those of the author(s) and do not necessarily reflect the views of the firm, its clients, or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.

[1] Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers, Inv. No. 337-TA-794, Re: Disapproval of U.S. International Trade Commission's Determination (USITC Aug. 3, 2013) ("794 Investigation").

[2] Id.

[3] Id.

[4] 2019 Policy Statement at p. 3.

[5] Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers, Inv. No. 337-TA-794, Comm'n Op. (USITC July 5, 2013) at 112-13 n.22. ("794 Investigation").

[6] 794 Investigation, Comm'n Opinion at 112-113 n.22.

[7] Certain Wireless Standard Compliant Electronic Devices, Including Communication Devices and Tablet Computers, Inv. No. 337-TA-953, Order No. 33 (USITC Aug. 7, 2015) at pp. 5-8 ("953 Investigation").

[8] See, e.g., Certain Memory Modules and Components Thereof, and Products Containing Same, Inv. No. 337-TA-1023, Initial Determination at 181 (USITC Dec. 4, 2017) (noting that the RAND dispute did not appear to fit within any statutory public interest factors) ("Netlist I")

[9] Certain Magnetic Data Storage Tapes and Cartridges Containing the Same, Inv. No. 337-TA-1012, Initial Determination at 362-364 (USITC Sept. 1, 2017) ("1012 Investigation").

[10] Certain Wireless Standard Compliant Electronic Devices, Including Communication Devices and Tablet Computers, Inv. No. 337-TA-953, Order No. 20 (USITC Aug. 7, 2015) ("953 Investigation").

[11] 337-TA-613, 337-TA-800, and 337-TA-868.

[12] Certain 3g Mobile Handsets and Components Thereof, Inv. No. 337-TA-613, Initial Determination (April 27, 2015) at 40-41. ("613 Investigation")

[13] Id.; see also 1012 Investigation, Initial Determination at 362-364 (ALJ Shaw not questioning enforceability of a breach of contract affirmative defense in the 1012

Investigation).

[14] Certain LTE- And 3G-Compliant Cellular Communications Devices, Inv. No. 337-TA-1138, Initial Determination (Feb. 18, 2020) at 173-174 n.102 ("1138 Investigation").

[15] Netlist I, Initial Determination at 194-196.

[16] Certain Memory Modules and Components Thereof, Inv. No. 337-TA-1089, Initial Determination at 175-77 (USITC Nov. 4, 2019) ("Netlist II").

[17] 613 Investigation, Initial Determination at 39.

[18] 1012 Investigation, Initial Determination at 126-127, 205-206, 312-313.

[19] 1038 Investigation, Initial Determination at 179.

[20] Certain Gaming and Entertainment Consoles, Related Software, and Components Thereof, Inv. No. 337-TA-752, Initial Determination (USITC April 23, 2012) at 315-317.

[21] Netlist I, Initial Determination at 184.

[22] Netlist II, Initial Determination at 175, 182.

[23] Netlist II, Notice of Commission Determination to Review in Part a Final Initial Determination Finding a Violation of Section 337 (January 31, 2020) ("Netlist II").

[24] Id.; Netlist II, Statement of Public Interest of Nonparty JEDEC; Netlist II, Third Party United States Federal Trade Commission's Statement on the Public Interest.