

ALJ Essex Elaborates an Evidence-Based Framework for Adjudicating the FRAND Defense

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Administrative Law Judge Essex recently issued the public version of his Initial Determination on Remand in International Trade Commission investigation No. 337-TA-613, In the Matter of Certain 3G Mobile Handsets and Components Thereof (the 613 Investigation). It is [another important contribution](#) by Judge Essex to the ongoing conversation regarding the enforcement of standard essential patents (SEPs) at the Commission.

Respondents accused of infringing patents that may be standard essential have increasingly advanced the FRAND defense in recent years, arguing that even if the patents in suit are valid and infringed, the patent owner is not entitled to an exclusion order or other injunctive relief because it failed to offer to license its patents on fair, reasonable, and non-discriminatory (FRAND) terms. Building on the analysis he articulated in his Initial Determination in investigation No. 337-TA-868, In the Matter of Certain Wireless Devices with 3G and/or 4G Capabilities and Components Thereof, Judge Essex further elaborates the contours of a grounded, evidence-based framework for adjudicating the FRAND defense in his Initial Determination on Remand in the 613 Investigation. In so doing, he addresses several foundational questions: (a) What makes a patent standard essential? (b) Who bears the burden of proving a patent is standard essential? (c) How are obligations to license patents on FRAND terms triggered? (d) How is a FRAND rate determined? (e) What obligations do the implementers of standards (i.e., would-be infringers) owe to patent owners? And (f) Are the owners of standard essential patents entitled to exclusionary relief for infringement of their patents?

We examine each in turn.

A. What Makes a Patent Standard Essential?

Judge Essex begins his analysis by noting that whether a patent is essential to practicing a standard is a question of fact—one that must be proved, not assumed. A patent owner's declaration to a

standard-setting organization (SSO) that its patents “may be or may become” essential to the practice of a standard is not itself evidence that they are in fact essential to that standard. To support a finding that the patents are actually standard essential, evidence that “they have been tested or judged to be standard essential,” or some other evidence that they are essential to the practice of the standard, must be put forward.

B. Who Has the Burden of Proving a Patent Is Standard Essential?

The FRAND defense only applies if the patents are standard essential (and then only if certain other conditions are met, as discussed below). Judge Essex notes that accused infringers wishing to avail themselves of the defense will have the burden of proving the factual predicate that the asserted patents are standard essential. As he explains, this follows from Commission Rule 210.37(a), which places the burden of proving any factual proposition squarely on its proponent. The rule applies equally to the FRAND defense. “We need not be stampeded into abandoning the rule of law, or burden of proof simply because the respondents shout ‘FRAND,’” Judge Essex remarks. By failing to present any evidence of essentiality, the respondents in the 613 Investigation failed to meet their burden of proof: “As the respondents have presented no evidence that the patents are standard essential, they have failed to prove they are standard essential, and [therefore] that they are entitled to claim the rights available under the [applicable] FRAND policy.”

C. How Are FRAND Obligations Triggered?

Even if the respondents had met their burden of proving the asserted patents were standard essential, they would still have to prove the patent owner had an obligation to license them on FRAND terms. Judge Essex notes that this requires “look[ing] at the patentee’s actual FRAND commitment.” Citing the Federal Circuit’s recent decision in *Ericson, Inc. v. D-Link Systems, Inc.*, 773 F.3d 1201 (Fed. Cir. 2014), he goes on to explain that “[t]he source to examine to determine the rights and duties of the parties is the Standard Setting Organizations (SSO) agreement,” which governs the patent owner’s licensing obligations with respect to the patents and is to be examined through the prism of contract law.

The SSO Agreement at issue in the 613 Investigation was issued by the European Telecommunications Standards Institute (ETSI). By its terms, the ETSI agreement provides that “licensing declarations do not create a duty that any such patent so declared must be licensed on FRAND terms, but rather the agreement is one that has multiple contingencies. The duty to license on FRAND terms, if there is one, is a springing duty.” That means the duty to license on FRAND terms is not triggered unless the applicable contingencies and conditions are met. Like the burden of proving that the patents are standard essential, the burden of proving the FRAND obligation has been triggered lies with the party seeking to avail itself of the FRAND defense. The respondents in the 613 Investigation, Judge Essex observed, presented no such evidence.

D. How Is a FRAND Rate Determined?

Once the party seeking to avail itself of the FRAND defense has proven that the patents at issue are standard essential and that the patent owner’s FRAND obligations have been triggered, it must then prove that the patent owner violated its FRAND obligations and engaged in patent hold-up—that is,

that it tried to extract higher-than-FRAND royalties for the practice of the standard essential patents once the standards had been widely adopted. To prove the patent owner engaged in hold-up, Judge Essex observes, it is not enough to point to atheoretical concern about the possibility of patent hold-up like the FTC, the Justice Department, and various academic commentators, have done. Citing *Ericsson v. D-Link* once more, Judge Essex explains that actual evidence the patent owner engaged in patent hold-up is required. Such evidence may include evidence the patent owner's ultimate licensing offers were not within the FRAND range, and were therefore made in bad faith. (Initial offers, Judge Essex reminds us, have been held not to have to be on FRAND terms as long as a FRAND license ultimately ensues.) In turn, such evidence requires establishing what the FRAND range under the governing SSO agreement would have been.

Under the ESTI agreement at issue in the 613 Investigation, there is no mechanism for the parties to determine what the FRAND range is absent a trial or the parties' voluntary agreement; therefore, there is no way to determine *ex ante* whether the patent owner's licensing offers were within that range. As Judge Essex explains:

[O]nly after the court determines a rate, could we look retrospectively at the negotiations and determine if the offers were within the FRAND range (FRAND contracts provide for a range of acceptable results. While some offers could be clearly outside the range, there is no mechanism for finding the range prior to litigation). Even then, there would be difficulty in determining if a party was acting in bad faith, because reasonable minds do differ on what may constitute a FRAND rate.

If the governing SSO agreement does not provide a mechanism for determining the FRAND range absent voluntary agreement or trial, how are accused infringers to prove that the patent owner violated its FRAND obligations? Judge Essex explains that, at the very least, they must take a position on what the FRAND range would have been, and then present evidence to support that position. In the 613 Investigation, Respondents' economic witness took no position on what the FRAND rate was or should be; his opinion was therefore "entitled to little weight" because it could not support a conclusion that the patent owner violated its obligation to offer a FRAND license: "[the expert] has no reference point as to what the FRAND rate is, nor any reference for how the licensing industry conducts negotiations and reaches FRAND contracts, he cannot reasonably assess the current negotiations."

Based on his findings, Judge Essex held there was no evidence the patent owner had engaged in patent hold-up. Indeed, "[n]ot one witness in this hearing was able to provide a single example of a holdup due to an exclusion order, or potential exclusion order," ever having occurred anywhere. This, in itself, is remarkable. "After watching for a holdup since 2011," Judge Essex muses, "we may be able to consider whether the fact that none has occurred allows us to discount the risk today."

E. What Obligations Do the Implementers of Standards Owe to Owners of Standard Essential Patents?

While finding no evidence of patent hold-up, Judge Essex did find evidence the respondents had engaged in reverse patent hold-up (or patent hold-out)—the attempt by implementers of standards to withhold fair compensation for the use of the patented inventions incorporated in those standards—and that they did so as of August 1, 2012, the date on which the Federal Circuit issued its decision reversing and remanding the Commission's finding of no violation on the grounds that several key claim terms had been misconstrued. "From that date," Judge Essex explained, "based on the claim construction provided by the court, [respondents] should have been aware that the

patents were valid, and infringed. ... Since the [Federal Circuit] reversed the non-infringement finding, and changed the claim construction, the respondents were on notice that they infringed, and needed to take a license on the patents.” The respondents engaged in reverse hold-up by failing to do so—or even to negotiate meaningfully with the patent owner—he found.

In arriving at his finding that the respondents had engaged in reverse patent hold-up, Judge Essex rejected the suggestion that the concept of reverse hold-up is somehow “amorphous” or that it “is less well defined than hold-up,” explaining that the concept is quite straightforward: “Where a respondent uses the technology covered by a patent, and refuses to take a license to the technology or refuses to negotiate in a meaningful way there is reverse patent holdup.”

F. Are the Owners of Standard Essential Patents Entitled to Exclusionary Relief?

Turning next to a consideration of whether the owners of standard essential patents should be entitled to exclusionary or other injunctive relief, Judge Essex explained that in light of the dearth of any evidence that SEP owners have ever engaged in patent hold-up, there is no reason to answer this question in the abstract. As with other questions related to the adjudication of the FRAND defense at the Commission, the question should be approached by examining what the SSO agreement at issue provides in the first instance.

Under the applicable agreement in the 613 Investigation, “there is no duty not to seek an exclusion order.” This ends the inquiry. It means the patent owner is entitled to the full measure of relief afforded to other patent owners under Section 337 for the infringement of their valid patents. Judge Essex goes on to note that the fact that some members of the SSO may have expressed a preference for a different rule prior to the adoption of the existing agreement—e.g., a rule that patent owners should be prohibited from seeking exclusion orders or injunctions—is irrelevant. Applying one of the foundational canons of contract interpretation, Judge Essex explains that what matters is what the rules in the governing SSO agreement actually are, not what they might have been, or what they might be in the future. He goes on to observe that SSOs are always free to change their rules, if they wish, [as the IEEE has recently done](#): “If the SSO negotiators want to agree to provide greater protection from exclusion orders or injunctions, it is within their power to do so. ETSI [itself] did this until 1994...”

The Path Forward

Judge Essex’s Initial Determination on Remand remains subject to the Commission’s review, but the decision is nevertheless noteworthy not only for its specific factual findings (no evidence of hold-up and evidence of reverse hold-up), but more broadly for advancing the conversation on how we should approach the enforcement of SEPs at the Commission and elsewhere, and for elaborating a grounded, evidence-based framework for answering the key questions such enforcement raises.

In elucidating the requirements for proving a FRAND defense, Judge Essex’s framework also helpfully clarifies the kinds of challenges prevailing on such a defense will pose. They are by no means trivial. As we have seen, parties wishing to avail themselves of a FRAND defense will not only have to prove the factual predicate that the patents at issue are standard essential, but also that the patent owner had an obligation to license the patents on FRAND terms and it violated that obligation. Proof of the FRAND obligation and its violation will require careful consideration of the declarations submitted by the patent owner to the relevant SSO, in conjunction with careful review of the agreements governing such declarations to determine the nature and scope of the respective obligations of the patent owners and of the implementers of the standards to each other. Experienced

patent counsel can help patent owners and accused infringers alike meet these challenges head on.

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