

Artificial Intelligence & Standards – Government Regulation

by Paul Ragusa¹

Artificial Intelligence (AI) continues to be a growing area of emerging technology, catching the eye of government regulators around the globe, particularly as private parties attempt to create standards for aspects of AI technology. The National Institute of Standards and Technology (NIST) set forth a proposed plan encouraging the creation of AI standards for use by governments and companies which recognized that while many standards promote important AI goals, a need still exists for standards which help promote trustworthiness.² The Office of Management and Budget (OMB) released a formal memorandum on November 17, 2020, stressing that when federal agencies consider AI regulations, they should promote innovation while protecting American technology, economic and national security, privacy,³ civil liberties, and other American values.⁴ Most recently, the National Security Commission on Artificial Intelligence (NSCAI) issued a Final Report that recognizes the increasing role of AI in various industries, identifies certain threats and considerations, and sets forth AI-related goals for the US government to incentivize, expand, and protect AI and other emerging technologies.⁵

Part I of the Report explains that “AI-enhanced capabilities will be the tools of first resort in a new era of conflict as strategic competitors develop AI concepts and technologies for military and other malign uses and cheap and commercially available AI applications ranging from ‘deepfakes’ to lethal drones become available to rogue states, terrorists, and criminals.”⁶ The Report states that “[t]he United States must prepare to defend against these threats by quickly and responsibly adopting AI for national security and defense purposes.”⁷ For example, the Report recommends that the government take actions such as leveraging AI-enabled defenses to protect against cyber-attacks targeting America’s free and open society, preparing for future warfare by integrating AI into military systems, managing the risks of autonomous weapons systems in conjunction with countries like Russia and China, and scaling up digital talent in national security agencies.⁸

Part II of the Report explains that “[t]he race to research, develop, and deploy AI and associated technologies is intensifying the technology competition that underpins a wider strategic competition.”⁹ China, especially, is an “organized, resourced, and determined” competitor.¹⁰ The

Report urges the government to organize a competitive strategy under White House leadership, cooperate with competitors like China by establishing a high-level dialogue on the challenges relating to AI technologies, accelerate AI innovation by scaling and coordinating federal AI R&D funding, develop AI expertise by cultivating potential talent at home and recruiting existing talent from abroad, and revitalize domestic fabrication of the microelectronic components used to power AI technology.¹¹

Importantly, the Report urges the United States to “recognize IP policy as a national security priority critical for preserving America’s leadership in AI and emerging technologies.”¹² The Report outlines several points which evidence a “policy asymmetry” between the US and China.¹³ First, US courts have “severely restricted” patent protection for “computer-implemented and biotech-related inventions” causing inventors in these areas to pursue trade secret protection instead.¹⁴ China, on the other hand, has strategically and drastically increased both its domestic and foreign patent filings and is the current leader in domestic applications for AI inventions.¹⁵ This practice creates a “vast reservoir” of prior art that may burden the USPTO’s examination process and impede American inventors’ ability to obtain patent protection.¹⁶

Additionally, China has been identifying many patents as “standard-essential” in standards development organizations (SDOs), “further[ing] China’s global narrative that it has ‘won’ the race” to certain standardized technologies and “prompting other countries to adopt China’s technologies.”¹⁷ China also continues to “pervasively steal American IP-protected technological advances” through cyber hacking, espionage, blackmail, and illicit technology transfers.¹⁸ Finally, the Report argues that a “lack of explicit legal protections for data or express policies on data ownership may hinder innovation and collaboration, particularly as technologies evolve.”¹⁹ In light of these issues, the Report encourages the government to “[d]evelop and implement national IP policies and regimes to incentive, expand, and protect AI and emerging technologies as part of national security strategies,” for example, by ensuring consistent patentability decisions in the federal courts and prioritizing IP legislation.²⁰

A New Trial is Ordered with Respect to Damages in *Optis Wireless v. Apple*, Despite No FRAND Claims at Issue²²

by Curtis Dodd²³

“With the benefit of hindsight, it is apparent to the Court that both sides played fast and loose with the FRAND issue before the jury for their own strategic reasons.” – Judge Rodney Gilstrap

On April 14, 2021, in a somewhat surprising about face, Judge Rodney Gilstrap ordered a new trial with respect to damages in *Optis Wireless Technology, LLC et al. v. Apple Inc.*, Civil Action No. 2:19-cv-00066-JRG (E.D. Texas), despite previously ruling that no FRAND based claims remained in the case. This ruling adds even more silt to the already murky waters of damages for patents related to standardized technology.

The Continued Convergence of FRAND Rates and a Reasonable Royalty for Infringement

In [a previous article](#), we discussed the confusing and problematic convergence of FRAND licensing rates and reasonable royalty damages for patent infringement, despite these two concepts having different origins and seeking to achieve different objectives: *i.e.*, patent damages being a creature of statute and case law and seeking to compensate a patent owner for infringement, whereas FRAND commitments are rooted in contract and seek, amongst other things, to ensure that licenses can be obtained for standardized technology and that royalty stacking does not become an issue (e.g. as reflected in “top-down” approaches used to determine FRAND rates for standards essential patents). As noted in that article, one problem with this convergence is that it facilitates hold out. Why put money in the parking meter if the fine is no more than the fee? Especially if one has the chance of getting away without paying at all, including by making it economically unfeasible to enforce the fine. Further, this convergence ignores that licensing rates take into consideration uncertainties that no longer exist after infringement and validity are established, and that having to prove in court that licenses are required is inconsistent with the notion of a willing licensee.

FRAND AS A COUNTERCLAIM / AFFIRMATIVE DEFENSE VS. AN INHERENT LIMITATION ON DAMAGES

In the [Opinion and Order as to Bench Trial Together with Supporting Finds of Fact and Conclusions of Law](#) (“Opinion

and Order”) Judge Rodney Gilstrap found that “[a]s a consequence of Apple’s failure to seek affirmative FRAND relief, the only constraints of any FRAND obligation which were affirmatively presented in this case appeared via Optis’s Count VIII.”²⁴ As such, when the court declined to exercise jurisdiction over Optis’s FRAND related Count VIII FRAND was no longer at issue in the case. See [“What the Latest Optis Wireless v. Apple Ruling Means for Patent Infringement Damages for SEPs”](#) for additional background on Count VIII.

With respect to Apple’s failure to seek affirmative FRAND relief, the Opinion and Order appeared consistent with other decisions finding the burden of proof regarding FRAND counterclaims and affirmative defenses is on the party raising such counterclaims or defenses.²⁵ As is apparent from reviewing these decisions, one big reason alleged infringers of patents subject to licensing declarations are reluctant to raise such counterclaims and affirmative defenses is because the undertaking to license on FRAND terms is only to the extent the patents are “essential” to practicing the standard, and admitting a patent is essential can be used as evidence of infringement. But having now lost on infringement, there was no downside for Apple to go all in on FRAND, as part of what Judge Rodney Gilstrap described as a “post-trial epiphany regarding the absence of FRAND evidence” in the Order regarding Apple’s Motion for New Trial (“New Trial Order”).²⁶

What is most confusing about the New Trial Order is, despite reiterating that the court declined jurisdiction over Optis’s FRAND based claim (the only FRAND based claim in the case), and that “if Apple wanted to ensure its ability to introduce a FRAND-related damages analysis to the jury, it could (and should) have brought a counterclaim or even raised an affirmative defense to that effect,” Judge Rodney Gilstrap nonetheless ordered the new trial saying “... the Court is persuaded that the FRAND-compliance of the damages awarded by the jury has legitimately been

(Continued on P.7)

called into question.”²⁷ Judge Rodney Gilstrap further added that “[g]iven that the patents found to be infringed **are FRAND-encumbered SEPs**, any royalty awarded must be FRAND”.²⁸

But how does one square that statement with the Opinion and Order, which clearly stated that no findings were made with respect to any FRAND commitment?

*Any claim by Apple as to the protection of the FRAND commitment by Optis and its predecessors would require affirmative findings, including whether ETSI and Samsung, LG, and Panasonic intended for Apple to be a third-party beneficiary to the FRAND commitment. . . Without any affirmative claim for relief by Apple, neither the Court nor the jury performed any analysis as to the issues undergirding the FRAND commitment.*²⁹

ERICSSON V. D-LINK

In support of the court’s conclusion that any royalty awarded for FRAND-encumbered SEPs “must be FRAND”, the New Trial Order cites *Ericsson, Inc. v. D-Link Sys., Inc.*,³⁰ but without further explanation. According to the *Ericsson v. D-Link* decision, however, “Ericsson has asserted that all of the patents at issue **are SEPs** for IEEE’s 802.11(n) standard” and “[t]he **parties agree that this commitment** [to the IEEE] **is binding** on Ericsson.”³¹ Similarly, in *In Re Innovatio IP Ventures, LLC Patent Litigation*, which also dealt with damages for SEPs, “[t]he **parties agreed** that many of Innovatio’s asserted patent claims **were essential** to practice the 802.11 standard.”³² Further worth noting is that both the *Ericsson v. D-Link* and *In Re Innovatio* cases dealt with patents subject to a licensing commitment made to the IEEE, not to ETSI as in the *Optis* case.

Even if one were to assume, arguendo, that the contracts between the former owners of the patents being asserted by Optis and ETSI were somehow at issue, and were in fact breached by Optis, how is that relevant to patent damages? According to the “Opinion and Order,” the “Federal Rules of Civil Procedure 8(c)(1) identifies ‘license,’ ‘release,’ and ‘waiver’ as affirmative defenses.”³³ The contracts in question are not, however, licenses (or releases or waivers), but rather commitments to being “**prepared to** grant irrevocable licenses.”³⁴ Accordingly, if damages for infringement were assessed at \$1 per unit, but the FRAND rate to which Apple was entitled to was \$0.50 per unit, why not award Optis patent damages in the amount of \$1 per unit and award Apple breach of contract damages in

the amount of \$0.50 per unit? This seems to make more sense than shoehorning FRAND considerations into patent damages law. Of course, in the case of Optis and Apple, it makes even less sense given the applicability of the FRAND commitment was *not* established and because Apple argued against the need to obtain licenses, previously saying that Optis has “**no legal right** under U.S. law **to impose on Apple an obligation to negotiate a license** to Plaintiffs’ portfolios of declared-essential patents or forfeit any defenses for failing to do so.”³⁵

PLAYING FAST AND LOOSE

Notwithstanding Apple’s failure to raise a FRAND based counterclaim or affirmative defense, Optis’s First Amended Complaint, according to the New Trial Order, “set forth that the Asserted Patents were SEPs” and made multiple references to Optis’s patents as being “essential patents.”³⁶ Further, in response to Apple’s motion for a new trial, Optis tacitly acknowledged the FRAND limitation by arguing “that the jury’s verdict is FRAND-compliant, despite the lack of any mention of FRAND principles or obligations before the jury.”³⁷ One thing Judge Rodney Gilstrap was clearly unhappy about was “Optis’s attempt to have it both ways – *i.e.*, to use FRAND as both a sword (in the jury trial against Apple) and a shield (in a subsequent bench trial as to Optis’s own conduct).”³⁸ According to the New Trial Order “Optis intentionally placed itself in a position to tell the jury only about Apple’s bad acts without telling them of their own obligations to act in good faith” and “[free] from telling the jury of its affirmative FRAND duties and obligations, Optis attempted to leverage its willfulness claim to introduce evidence before the jury of bad faith and bad acts by Apple during pre-suit licensing negotiations.”³⁹

Nor was the court happy with Apple acquiescing to trying the FRAND issue before the bench and benefiting from that decision by keeping evidence of “bad faith conduct or holdout” from the jury, but then seeking to overturn the jury verdict because the jury was not made aware of any FRAND issues.

Perhaps most illuminating as to the court’s motivation for order a new trial comes in footnote 2:

*With the benefit of hindsight, it is apparent to the Court that both sides played fast and loose with the FRAND issue **before the jury** for their own strategic reasons.*⁴⁰

ENDNOTES

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- 2 Nat'l Inst. of Standards and Tech., *US Leadership in AI: A Plan for Federal Engagement in Developing Technical Standards and Related Tools* (2019).
- 3 Globally, there is a trend toward increasing data privacy in light of the copious amount of data collection that occurs in various industries. The General Data Protection Regulation (GDPR) established a fundamental right to data protection in Europe. The California Consumer Privacy Act (CCPA), which primarily relates to transparency, started the US response, and other states are following that lead - Illinois, New York, Massachusetts, and Virginia have all drafted their own data privacy laws.
- 4 Office of Mgmt. & Budget, Exec. Office of the President, *Guidance for Regulation of Artificial Intelligence Applications* (2020). The Guidance sets forth ten principles "for the stewardship of AI applications" and states that agencies may consider non-regulatory approaches to AI, including the use of sector-specific frameworks, pilot programs and acquiescence to voluntary consensus standards where the private sector has already created a robust and adequate framework. *Id.* at 3-8.
- 5 Nat'l Sec. Comm'n on Artificial Intelligence, *Final Report* (2021).
- 6 *Id.* at 9.
- 7 *Id.*
- 8 *Id.*, Part 1, Chapter 1-4, 6.
- 9 *Id.* at 11.
- 10 *Id.*
- 11 *Id.*, Part 2, Chapter 9-11, 13.
- 12 *Id.* at 12.
- 13 *Id.* at 201.
- 14 *Id.*
- 15 *Id.* at 202.
- 16 *Id.* at 204.
- 17 *Id.* at 204-05.
- 18 *Id.* at 205.
- 19 *Id.*
- 20 *Id.* at 465, 467.
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- 22 This article is republished from *IPWatchdog*, the original article is available at <https://www.ipwatchdog.com/2021/04/29/a-new-trial-is-ordered-with-respect-to-damages-in-optis-wireless-v-apple-despite-no-frand-claims-at-issue/id=132833/>
- 23 Curtis Dodd is Chief IP Officer of Harfang IP, a patent licensing company specializing in licensing wireless technology. Curt is a veteran of patent monetization, enforcement and portfolio management in the telecommunications and consumer electronics space with approximately twenty years of industry experience. Curt was IP Counsel for Nortel Networks and led the management of its 4G LTE wireless portfolio. Curt also worked for Wi-LAN as Vice President, Patents and Counsel, and served as a Senior Vice President and Licensing Executive for Acacia. Most recently, Curt worked as a Senior Licensing Specialist for Fitch Even, and assisted Longhorn IP in successfully monetizing 3G and 4G LTE standards essential patents formerly owned by ZTE and ASUSTeK.
- 24 *Optis Wireless Technology, LLC et al. v. Apple Inc.*, Civil Action No. 2:19-cv-00066-JRG, Opinion and Order as to Bench Trial Together with Supporting Findings of Fact and Conclusions of Law, p. 20 (E.D. Tex. January 22, 2021) [hereinafter "Opinion and Order"].
- 25 *See Koninklijke KPN N.V. v. Sierra Wireless, Inc.*, No. 17-90-LPS, 2020 U.S. Dist. LEXIS 67016 (D. Del. Apr. 16, 2020) and *Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers, Inv. (US ITC Inv. No. 337-TA-794, 2012)*.
- 26 *Optis Wireless Technology, LLC et al. v. Apple Inc.*, Civil Action No. 2:19-cv-00066-JRG, Order (E.D. Tex. Apr. 14, 2021) [hereinafter "New Trial Order"].
- 27 *Id.* at 9.
- 28 *Id.* (emphasis added).
- 29 Opinion and Order, Civil Action No. 2:19-cv-00066-JRG, fn. 2.
- 30 773 F.3d 1201 (Fed. Cir. 2014).
- 31 773 F.3d at 1209 (emphasis added).
- 32 2013 U.S. Dist. LEXIS 144061 at *41 (emphasis added).
- 33 Opinion and Order, Civil Action No. 2:19-cv-00066-JRG at 19.
- 34 *Id.* at 4 (emphasis added).
- 35 *See Apple Inc.'s Motion to Dismiss Count VIII for Lack of Subject Matter Jurisdiction, Optis Wireless Technology, LLC, Optis Cellular Technology, LLC, Unwired Planet, LLC, Unwired Planet International Limited, and PanOptis Patent Management, LLC v. Apple Inc.*, Civil Action No. 2:19-cv-00066-JRG (E.D. Tex. June 22, 2020) (emphasis added).
- 36 New Trial Order, Civil Action No. 2:19-cv-00066-JRG at 3.
- 37 *Id.* at 6.
- 38 *Id.* at 4-5.
- 39 *Id.* at 7-8.
- 40 *Id.*, fn. 2 (emphasis added).