USPTO, DOJ Downplay Essential Patents' Licensing Terms

By **Jay Jurata and Emily Luken** (February 7, 2020)

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After withdrawing support from a 2013 policy statement[1] on appropriate remedies for standard-essential patents subject to a commitment to license on fair, reasonable and nondiscriminatory terms, the U.S. Department of Justice's Antitrust Division and the U.S. Patent and Trademark Office, along with the National Institute of Standards and Technology, recently issued a new policy statement[2] on the same subject.

The new statement emphasizes that, while the existence of a FRAND commitment is a "relevant factor" in determining appropriate remedies for infringement of SEPs, there is no “special set of legal rules” when it comes to FRAND-encumbered SEPs. Under this framework, all remedies, including injunctions, should be on the table.

It is not entirely clear what, if any, judicial or administrative decisions espoused this special set of legal rules that, in the agencies’ views, necessitated withdrawing the 2013 policy statement and issuing this new statement. The new statement is similarly silent concerning (1) specific evidence as to how the 2013 statement was misinterpreted to suggest that such special rules exist, and (2) how that misinterpretation would hamper innovation to the detriment of competition. Which makes us wonder if the new policy statement is a solution searching for a problem.

The new statement appears to largely stem from the mistaken view that SEPs are no different from any other kind of patent or intellectual property. Respectfully, we believe this view is wrong because it fails to account for the significance of the SEP holder’s voluntary and irrevocable FRAND commitment which does, in fact, make SEPs sufficiently distinct from other patents in ways that the law should — and multiple court decisions have — recognized. Of course, traditional patent law principles apply to SEPs, but application of those principles also considers the role of the FRAND commitment and how it shapes the remedies available.

Under the applicable intellectual property rights policies of most standard-setting organizations, a patent holder must disclose its patents (or patent applications) that are or may be essential to practicing the relevant standard and state whether the patent holder is willing to license those patents on FRAND terms. If the patent holder does not make a FRAND commitment, the SSO generally will not include that patentee’s technology in the standard. The SSO’s acceptance of the patent holder’s FRAND promise therefore increases that patent holder’s preexisting market power originating from the patent.

In contrast, to the extent that a patent holder of a regular (nonessential) patent has market power, it based solely on the patent itself, and not the fact of the patent’s standardization. As the U.S. Supreme Court held in its 2006 Illinois Tool Works Inc. v. Independent Ink Inc. decision,[3] the mere grant of a patent does not give rise to a presumption of market power. Moreover, when a patent does confer market power upon the patentee — which must be established through evidence, not a presumption — it is the value of the patented invention that warrants the right to exclude inherent in the patent.

With that understanding in mind, the new policy statement minimizes the significance of a patent holder's voluntary FRAND commitment. This commitment, along with standardization of a patent, alters the competitive landscape in ways that do not occur with respect to other types of patents.

Through the FRAND commitment, the patent holder voluntarily agrees to curtail the full scope of its patent rights in exchange for certain benefits that effect competition in the marketplace. When an SEP is involved, a prospective licensee cannot simply design around the particular patent at issue because practicing an SEP is, by definition, necessary for practicing the standard. In licensing negotiations involving FRAND-encumbered SEPs, patent holders therefore enjoy significant leverage vis-a-vis potential licensees and can use the threat of an injunction to effectively coerce licensees to accept above-FRAND royalty rates.

In light of these concerns, courts in the United States and elsewhere have cautioned that injunctions on FRAND-encumbered SEPs should only be issued under carefully prescribed and rare circumstances, such as when a potential licensee unilaterally refuses to enter into a license on FRAND terms. For example, in Apple Inc. v. Motorola Inc.,[4] the U.S. Court of Appeals for the Federal Circuit in 2014 observed that "[a] patentee subject to FRAND commitments may have difficulty establishing irreparable harm," one of the prerequisites for injunctive relief under the U.S. Supreme Court's eBay standard.

As the new policy statement acknowledges, this case also held that there is no per se ban against injunctions on SEPs, though noting that challenging infringement and validity did not make a firm an unwilling licensee warranting an injunction. But the fact that there is no per se ban on injunctions for SEPs does not change the court's fundamental observation that injunctions and exclusionary relief should be rare when a FRAND-encumbered SEP is involved.

It is particularly curious then that the new statement cites Apple v. Motorola in support of the contention that courts should treat remedies for infringement of a FRAND-encumbered patent no differently than a regular patent — and even more curious considering that the Apple decision also cited the now-repudiated 2013 policy statement.

The principle that an SEP holder's voluntary FRAND commitment affects the patent damages available in the event of infringement is also well-established. Again, the Federal Circuit has spoken on this issue. In Ericsson Inc. v. D-Link Systems Inc.,[5] the court held that the traditional Georgia-Pacific factors for assessing patent damages should be modified when an SEP is involved to take into account the FRAND commitment, while also cautioning against a one-size-fits-all approach.

The U.S. Court of Appeals for the Ninth Circuit has similarly ruled in the context of determining the appropriate FRAND rate for an SEP portfolio in its 2015 Microsoft Corp. v. Motorola Inc.[6] decision. To the extent the statement might be read as advocating for an approach that relegates to the role of the FRAND commitment to the sidelines in determining damages and/or a proper FRAND royalty, that position would be the outlier.

Ultimately, despite the press attention the new statement has received, its actual effect should not be overstated. The new statement certainly represents a change in the position of the signatory agencies, but the statement itself, by its own terms, "has no force or effect of law." Indeed, the statement does nothing to alter the noteworthy and significant decisions issued by U.S. courts interpreting the scope and meaning of the FRAND commitment that emerged after the original 2013 statement.[7] In this manner, the new policy statement, precisely because it is a solution in search of a problem, should not have much of a real-world impact.

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[1] U.S. DOJ, Antitrust Division & U.S. PTO, Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments (Jan. 8, 2013), available at: https://www.justice.gov/atr/page/file/1118381/download.

[2] U.S. DOJ, Antitrust Division, U.S. PTO, & NIST, Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments (Dec. 19, 2019), available at: https://www.uspto.gov/sites/default/files/documents/SEP%20policy%20statement%20signed.pdf.

[3] 47 U.S. 28 (2006).

[4] 757 F.3d 1286, 1332 (Fed. Cir. 2014).

[5] 773 F.3d 1201, 1231 (Fed. Cir. 2014).

[6] 795 F.3d 1024, 1041-42 (9th Cir. 2015).

[7] See, e.g., Microsoft v. Motorola, 2013 WL 2111217 (W.D. Wash. Apr. 25, 2013) (adjudicating a FRAND royalty), aff'd, 795 F.3d 1024 (9th Cir. 2015); In re Innovatio, 2013 WL 5593609 (N.D. Ill. Oct. 3, 2013) (same); Realtek v. LSI, 946 F. Supp. 2d 998 (N.D. Cal. 2013) (granting a preliminary injunction to prohibit enforcement of any ITC exclusion order); Ericsson v. D-Link, 773 F.3d 1201 (Fed. Cir. 2014) (holding that damages for SEPs should not reflect any value added by virtue of standardization); FTC v. Qualcomm, 2019 WL 2206013 (N.D. Cal. May 21, 2019) (following bench trial, holding that Qualcomm's abuses of its SEP licensing program violated the antitrust laws).