

New US Policy On SEP Remedies Restores Critical Balance

By **Theodore Stevenson, Nicholas Mathews and Patrick Pijls** (March 19, 2020, 5:40 PM EDT)

In January 2013, the U.S. Department of Justice's Antitrust Division and the U.S. Patent and Trademark Office issued a joint policy statement that has generally been interpreted to limit the availability of injunctive relief for infringement of standard-essential patents subject to fair, reasonable and nondiscriminatory licensing assurances.

In December 2019, the agencies, joined this time by the National Institute of Standards and Technology, backed away from the 2013 statement and clarified that FRAND-assured SEPs are governed by the same set of rules as other patents and that remedies, including injunctions, are available as appropriate under the general framework of substantive remedies law, just as they are in other patent cases.[1]

The executive branch's clarification is welcome news to innovators holding U.S. SEPs because it confirms that injunctions are available in U.S. FRAND cases under the same legal framework that governs any other patent case.

Because the general *eBay Inc. v. MercExchange LLC* injunction framework[2] directs courts to consider the conduct of the parties when determining whether injunctions are appropriate, the 2019 policy serves to warn technology users engaged in strategic holdout that their failure to engage in good-faith negotiations could result in an injunction against their continued infringement.

FRAND's Private-Law Origins

FRAND emerged as a safety valve to ensure that collaborative industry standards would result in gains for technology-contributing innovators, technology users, and the public writ large. Innovators and users face bilateral risk of being locked out of the gains from a standard.

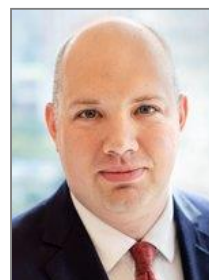
Users face the risk of holdup, or the potential for patentees to extract royalties from patents that exceed the patentee's contribution. Innovators, for their part, invest resources and make public otherwise proprietary technology for the sake of developing a standard that might fail.[3]



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If the standard succeeds, innovators then take on the risk of holdout, or the possibility of users' strategically negotiating in bad faith or refusing to negotiate altogether while free-riding on the proprietary technology. The parties resolve the risk of holdup through the enforceable FRAND assurance, whereby the patentee commits to licensing the technology on FRAND terms. But the assurance does not resolve the risk of holdout. That asymmetry is problematic, something policymakers have recognized.[4]

The holdout problem has garnered empirical support. A recent Dutch court opinion, for example, catalogued a number of particularly insidious tactics on the part of the infringing technology user.[5] Not only did negotiations always begin at the patentee's direction, even when invited into talks, the infringer never showed up prepared to actually negotiate.[6]

In one instance, the parties were to discuss the strength of the patentee's portfolio, which necessarily required underlying technical analysis.[7] Though the infringer challenged the portfolio's strength, it brought not a single technical expert to the meeting to afford an explanation.[8] Given ruses like this, the court determined that the infringer actively sought to avoid taking a license and that negotiations were a pretext.[9]

The patentee is protected from such misconduct through its ability to obtain the remedies available for the infringement of any patent. As explained below, however, some courts have been more reluctant to grant injunctive relief in FRAND cases than in other patent cases — despite injunctive relief being the most effective deterrent to holdout. This reduction of the availability of injunctive relief for SEP infringement has emboldened infringing technology users to hold out.

Without the figurative injunctive stick, infringers are incentivized to avoid good-faith negotiations and instead to drag out infringement cases — on a patent-by-patent basis — because fair and reasonable patent-infringement damages would be the sole remedy, no matter how egregious the infringer's tactics.

The new policy can be read as the agencies' acknowledgement that their prior position was a contributing cause of holdout. The policy departs from its narrower predecessor and brings the agencies' position in accord with the principles set out by the U.S. Supreme Court in eBay.

The Centrality of Injunctions to the FRAND Assurance

The FRAND assurance at the European Telecommunications Standards Institute was conceived in 1994 against the background of available remedies at the time, including injunctions. After all, the FRAND assurance is premised on the ability of patentees to protect themselves against bad-faith holdout through infringement actions seeking injunctive relief.

Take an infringing holdout technology user who refuses to accept a truly FRAND offer, continues to infringe an entire portfolio of SEPs, and refuses to even negotiate the terms of a portfolio-wide license. To be made whole in a world without injunctions, the patentee would be required to sue for damages, for each patent, in each country where the user infringes.

That undertaking is cost-prohibitive when dealing with large portfolios of SEPs: It is not practical or feasible to file thousands of patent cases around the world. A user knows this and therefore abuses the legal system to refuse to negotiate in good faith.

But when injunctions in FRAND cases are fully available, the user must account for its negotiating conduct, which could become relevant if an injunction for SEP infringement is sought. This accountability creates a sharper downside for improper negotiating conduct than individual, country-specific patent damages can provide, particularly with a large portfolio.

As one writer has observed, “absent the backstop of the injunction threat, implementers will have powerful incentives to breach their end of the FRAND contract and pursue their own ex post strategy of ‘patent holdout.’”[10] So attempts to characterize the injunction as a threat to the FRAND enterprise are mistaken: The FRAND assurance came into being “because of the presumption of injunctive relief, not despite it.”[11]

The Import of Injunctions to Substantive Remedies Law

The new policy also provides a view that realigns U.S. patent law both with U.S. remedies law and with other jurisdictions’ patent laws.

As the Supreme Court clarified in *eBay*, the general test for injunctive relief applies the same in the patent context as it does elsewhere. In the court’s words, “familiar principles” of equity “apply with equal force to disputes arising under the Patent Act.”[12] The new policy recognizes that that rule should apply no differently in FRAND cases.

At its core, *eBay* sought to prevent a situation whereby the appropriateness of injunctive relief would turn on the area of substantive law. Yet the 2013 policy said differently — or at least some courts read it so. The new policy thus clarifies that the inquiry into whether an injunction is appropriate in a FRAND case is no different than it is in any other case.

The new policy also better aligns U.S. patent remedies with those available elsewhere. A FRAND assurance is global in nature because, of course, the purpose of standards is global interoperability. When FRAND disputes must be litigated, then, it is not uncommon for them to be litigated in multiple fora. In most jurisdictions, injunctions are a default remedy for patent infringement.

As the European Court of Justice recently observed, “[T]he proprietor of the essential patent at issue has the right to bring an action for a prohibitory injunction or for the recall of products.”[13] And Article 44 of the World Trade Organization’s Agreement on Trade-Related Aspects of Intellectual Property Rights imposes no prerequisite for injunctive relief.[14]

To be sure, common law jurisdictions allow injunctive relief only when a remedy at law is inadequate. But the new policy does well to clarify that FRAND cases pose no special barriers to equitable relief, especially because “the [inadequate remedy at law] requirement no longer is as difficult to satisfy as it once was.”[15]

When the available remedies are similar across jurisdictions, the transactional costs associated with entering into and enforcing FRAND assurances are reduced, and lessened transactional costs promote innovation.

Leveling the Field

The new policy confirms that injunctions are not a forbidden fruit in FRAND cases. Under *eBay*, a party seeking an injunction must demonstrate an irreparable injury and an inadequate remedy at law.[16]

It must further show that the balance of hardships and public interest warrant injunctive relief.[17]

In many cases, those factors might be met with respect to FRAND technology users who infringe SEPs and thus deny technology innovators remuneration to which they are entitled.

The remedy at law is often inadequate because pursuing patent damages in multiple jurisdictions would be cost-prohibitive. As the U.K. Court of Appeal recently reasoned in *Unwired Planet International Ltd. v. Huawei Technologies Co. Ltd.*:

It may be wholly impractical for [an SEP] owner to seek to negotiate a licence of its patent rights country by country, just as it may be prohibitively expensive for it to seek to enforce those rights by litigating in each country in which they subsist.[18]

Unwired Planet is consistent with U.S. authorities that have held that the need to file multiple suits can render a remedy at law inadequate.[19] Relatedly, the patentee would be irreparably harmed because unable to collect damages across jurisdictions, it would not be made whole.

The equities and public interest also often favor injunctions. As to the equities, the U.K. High Court of Justice, while granting an injunction, recently recognized that the infringing technology user had “gamed the system” by, among other misconduct, refusing to pay royalties on 775 SEPs and refusing to submit to a court’s determination of a FRAND rate.[20]

The court thus deemed the user a holdout and determined that to deny the patentee an injunction would be unjust.[21] As to the public interest, standard-development organizations, and the related FRAND assurances, spur innovation.

But those assurances are premised on the ability of patentees to resort to injunctions when faced with bad-faith holdouts. Because the FRAND framework and standard-development organizations might well fall apart absent injunctions, the availability of injunctions is part of the glue that holds the FRAND consensus together.

Conclusion

The new U.S. policy helps restore a power balance between technology innovators and technology users. Users often complain that once a standard is adopted, they are at risk of being forced to cough up an unreasonably high royalty.

Yet the opposite problem plagues innovators, who are at risk of being forced to swallow an unreasonably low royalty while the users enjoy efficient infringement. The now-withdrawn 2013 policy disrupted a carefully negotiated scheme that equipped innovators and users with tools to find agreement on reasonable rates.

Looking forward, the policy also previews the promise of the injunction as a tool to better manage FRAND disputes. As an equitable remedy, the appropriateness of injunctive relief often comes down to, unsurprisingly, the balance of the equities.

The equities seem straightforward in cases when a neutral decision-maker has determined what terms constitute a FRAND offer yet an infringing technology user rejects a license on those terms. An

injunction, in such circumstances, might well issue without any further showing on the part of the technology innovator, regardless of whether the innovator competes in the product market at issue.

The harm to the infringing technology user in those cases is nearly nonexistent. To avoid the injunction, the user is asked to do nothing more than comply with its preexisting legal duty to compensate the innovator under terms a court has determined are just and right.

The harm to the innovator, meanwhile, is enormous. Even in the rare circumstance money damages accurately measure the harm, proving and enforcing that relief, in jurisdiction after jurisdiction, is a whole different matter. The transactional costs, more often than not, render the pursuit not worthwhile.

In sum, perhaps the way to truly level the field between technology innovators and users is to make an injunction a matter of right when a user refuses to accept a license on terms independently adjudicated to be FRAND. The new policy is an opportune moment for industry participants to consider this clear-cut case for injunctive relief.

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[1] See U.S. Patent & Trademark Office, Nat’l Inst. of Standards and Tech. & U.S. Dep’t of Justice, Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments 5 (2019), <https://www.justice.gov/atr/page/file/1228016/download>. The new policy also clarified that despite some courts’ suggestions to the contrary, the prior policy did not mean to imply that FRAND-encumbered Essential Patents pose antitrust concerns. *Id.* at 4 n.9.

[2] See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

[3] Those who contributed to WiMAX, an IEEE-SA communications standard, experienced such loss when LTE emerged as the successful standard.

[4] See Makan Delrahim, Assistant Attorney Gen., U.S. Dep’t of Justice, Antitrust Div., Take It to the Limit: Respecting Innovation Incentives in the Application of Antitrust Law (Nov. 10, 2017), <https://www.justice.gov/opa/speech/file/1010746/download> (“[I]nnovators make an investment before they know whether that investment will ever pay off. If the implementers hold out, the innovator has no recourse, even if the innovation is successful. In contrast, the implementer has some buffer against the risk of hold-up because at least some of its investments occur after royalty rates for new technology could have been determined. Because this asymmetry exists, under-investment by the innovator should be of greater concern than under-investment by the implementer.”).

[5] See Hof ’s-Gravenhage 7 mei 2019, rolnr. 200.221.250/01 (Koninklijke Philips N.V./Asustek Computers Inc.) (Neth.).

[6] *Id.* at ¶4.179.

[7] *Id.*

[8] *Id.*

[9] *Id.* For another example, see *Certain Electronic Devices, including Wireless Communication Devices, Portable Music and Data Processing Devices and Tablet Computers*, Inv. No. 337-TA-794, slip op. at 63 (July 5, 2013) (Final) (holding that Apple was engaged in hold-out against Samsung, thus forcing the latter “to defend its rights through expensive litigation”).

[10] Richard A. Epstein & Kayvan B. Noroozi, *Why Incentives for “Patent Holdout” Threaten to Dismantle FRAND, and Why It Matters*, 32 *Berkeley Tech. L.J.* 1381, 1404 (2018).

[11] *Id.* at 1408 (emphasis original).

[12] *eBay*, 547 U.S. at 391; see *id.* (“[A] major departure from the long tradition of equity practice should not be lightly implied.” (citation omitted)).

[13] *Case C-170/13, Huawei Techs. Co. Ltd. v. ZTE Corp.*, slip op. at ¶152 (July 16, 2015).

[14] TRIPS: *Agreement on Trade-Related Aspects of Intellectual Property Rights*, art. XLI, April 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299, 319–20.

[15] See 11A Charles Alan Wright & Arthur R. Miller, *Federal Practice & Procedure* § 2944 (2d ed. 1995).

[16] *eBay*, 547 U.S. at 391.

[17] *Id.*

[18] *Unwired Planet Int’l Ltd. v. Huawei Techs. Co. Ltd.* [2018] EWCA (Civ) 2344, [55] (appeal taken from Eng.).

[19] See Wright & Miller, *supra* note 15, at § 2944 (“[I]f plaintiff shows that a monetary award would be speculative because the amount of damage would be difficult or impossible to measure, or if plaintiff demonstrates that effective legal relief can be secured only by a multiplicity of actions,...equitable relief will be deemed appropriate.” (footnotes omitted)); *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 518 F. Supp. 2d 1197, 1219 (C.D. Cal. 2007) (“[T]he very need to file multiple lawsuits...is itself supportive of an irreparable harm finding.”).

[20] *TQ Delta LLC v. ZyXEL Commc’ns. Ltd.* [2019] EWHC (Pat) 745, [6], [7]–[8] (appeal taken from Eng.).

[21] *Id.* at [12], [14].