Portfolio Media. Inc. | 111 West 19th Street, 5th Floor | New York, NY 10011 | www.law360.com
Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Antitrust Chief's SEP Injunction Speech Puts Focus On Courts

By **Ryan Davis**

Law360 (December 18, 2018, 6:14 PM EST) -- A recent speech by the head of the U.S. Department of Justice's Antitrust Division suggesting that injunctions based on standard-essential patents should be more readily available could embolden owners of such patents in litigation, but it's not clear that courts will follow his lead on the issue, attorneys say.

Assistant Attorney General Makan Delrahim announced Dec. 7 that his division was withdrawing from a 2013 joint policy statement with the U.S. Patent and Trademark Office that warned allowing owners of patents essential to industry standards to obtain injunctions on infringing products could harm competition.

In a series of speeches this year, Delrahim has taken positions on the issue that are far more favorable to patent owners than his predecessors in the Obama administration were. He has suggested that owners of essential patents who pledge to license them on terms that are fair, reasonable and nondiscriminatory, or FRAND, should still be able to win injunctions.

"There is no special set of rules for exclusion when patents are part of standards," he said in this month's speech. "A FRAND commitment does not and should not create a compulsory licensing scheme."

The 2013 statement expressed concern that injunctions based on patents that must be used to implement standards for technologies like wireless networks can allow patent owners to secure much higher license rates than they would be able to get otherwise, although they pledge to license the patents on fair terms. In the years since the joint statement, courts and the U.S. International Trade Commission have issued few, if any, such injunctions.

The DOJ's withdrawal from the statement is the first concrete step the agency has taken to implement Delrahim's views, which also include concerns that agreements requiring FRAND licensing terms may be anti-competitive. The change could make injunctions easier to win, but it remains to be seen how courts will approach the issue, attorneys say.

"Patent owners who are seeking injunctions in spite of FRAND commitments that might have been made will be able to point courts to the fact that the antitrust division seems to be aligned with them at least in concept," said Christopher Kelly of Mayer Brown LLP.

Owners of patents subject to a FRAND commitment may start seeking injunctions because of the DOJ's

views even though some agreements between patentees and standard-setting organizations include provisions restricting their ability do so, said Kathi Vidal of Winston & Strawn LLP.

In that case, patent owners will “either have to argue that [those provisions] are unconscionable or that there's some other reason that they're unenforceable,” she said. “Or they could assert claims that they violate the antitrust laws and therefore should not be enforced. That’s the mechanism that somebody would have to pursue at this point."

It’s not clear that the DOJ’s views about injunctions will make judges more willing to entertain those kinds of arguments, particularly in view of the limits on injunctions in patent cases set by the U.S. Supreme Court’s 2006 eBay decision, said Logan Breed of Hogan Lovells.

“The DOJ can’t change the precedent that exists or the factors the courts have to consider” when issuing injunctions, he said. “The DOJ can bring a case and try to make new law, but it can’t just legislate by fiat and change the rules.”

The positions taken by the DOJ could be influential at the trade commission, which was a focus of the 2013 policy statement and is not subject to the same precedent as district courts. Months after the statement came out, the trade body issued an exclusion order on Apple iPhones found to infringe a standard-essential Samsung patent, but it was by the White House due to competition concerns.

If the ITC stopped considering whether patents are essential in its exclusion order decisions, it could be "much more likely" to issue such orders, Breed said. That "would significantly change the leverage that patent owners whose patents have been declared essential would have over counterparties in licensing negotiations,” he said.

Attorneys said they will closely watch what happens next, since Delrahim said the division will begin drafting a new statement on injunctions with the USPTO. Some DOJ policy statements have been quite influential on antitrust law while others “end up being like trees falling in the middle of the forest and not mattering very much,” said Kelly, who held several positions at the DOJ antitrust division over 16 years.

Expressing policy views is one thing, he noted, but if the DOJ intervenes as an amicus in a patent case and advocates for an injunction, that would be where “the rubber meets the road” and show that the antitrust division “wants to stick its neck out in a sense and put that argument to the test in front of a court.”

Whether owners of standard-essential patents being able to win injunctions would be positive or negative depends on one’s perspective on the issue.

Ted Stevenson of McKool Smith PC said that if patent owners can’t obtain injunctions, potential licensees who object to a licensing rate that is found by a court to comply with the patentee's FRAND commitment can avoid paying without fear of their products being removed from the market, eroding the rates patent owners can charge.

"Once a neutral party has adjudicated a FRAND rate, if a company doesn’t pay the rate, it should be enjoined until it starts to pay," he said. "That’s plain and simple how patents work."

In contrast, Vidal said that companies that use standard-essential patents in their products are worried that the tone of Delrahim's speech could be read to suggest that owners of standard-essential patents should almost always be entitled to injunctions, regardless of their FRAND commitments. That could upend

contracts that limit injunctions and raise the specter of the government undoing agreements that don't align with its views, she said.

"To me, one of the biggest concerns is that these are contractual obligations that companies have fairly relied upon," she said. "Companies have developed technology presuming that they can apply the standard and that they'll be at worst required to license the technology and that they won't be precluded from the market. There's also a concern with the government interfering with these types of contracts."

The free market doesn't work if "if the government can put their finger so heavily on the scale that they're rendering contracts unenforceable that parties have entered into," she added.

In addition to suggesting that owners of standard-essential patents should have better odds of securing injunctions, Delrahim's speech also suggested that the DOJ may start investigating whether standard-setting organizations could be violating antitrust law by reaching agreements that require patent owners to license on FRAND terms.

"There is a potential antitrust problem where a group of product manufacturers within a standard-setting organization come together to dictate licensing terms to a patent holder as a condition for inclusion in a standard because it may be a collective exertion of monopsony power," a market where there is only one buyer, he said.

Without a concrete example of the type of actions the DOJ could object to, it is difficult to guess what such an investigation would look like.

"The question is going to be whether it's motivated by any concern that even obtaining a FRAND commitment from a patentee is in itself an exertion of collective market power," Kelly said. "If that were motivating this, that would certainly be a shift and one that would raise a lot of concerns about the ability of standard-setting organizations to adopt standards."

Breed said he was skeptical of the suggestion that companies that set industry standards, all of which generally have diverse interests and patent portfolios, could be viewed as exerting monopsony power, calling it a "far-fetched theory."

"It's unlikely that such a group of companies could impose anti-competitive rules on everyone else," he said, although he said that if the DOJ were to bring an antitrust action against a standard-setting organization or the companies that participate in it, "it will be a big deal."

Standard-setting organizations concerned about becoming the DOJ's first test case could start to change their behavior, up to and including changing their policies so essential patents don't have to be licensed on any specific terms, Breed said.

Whatever the DOJ decides to do with its policies on injunctions or investigations into standard-setting bodies, its actions likely won't be the final word on the issue.

"Ultimately, the DOJ is an important voice in this area, but courts have to do their part," Stevenson said.

--Editing by Jill Coffey and Alanna Weissman.