

# STANDARD ESSENTIAL PATENTS AND INFRINGEMENT REMEDIES: THE TRUMP ADMINISTRATION CHANGES COURSE

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## Introduction

In today's complex technological environment, the development of interoperability standards, especially voluntary, consensus-driven standards, is critical to allow products designed and manufactured by different companies to work together. In a major shift in antitrust/patent policy, the Trump Administration recently issued a new statement detailing their views on how to treat remedies for the infringement of standard essential patents (SEPs) subject to a RAND/FRAND<sup>1</sup> commitment, i.e., "voluntary consensus-based, standard-setting activities." Specifically, the statement asserts that SEPs are not categorically different from other "ordinary" patents and that they should be judged under the same rules as those other patents with respect to available remedies, in particular injunctive or exclusionary relief.

Administration policy makers believe that a shift in position should strengthen the enforceability of patents generally and SEPs specifically, increase the probability of securing an injunction or other exclusionary remedy, and thereby also increase the leverage of patent holders in licensing negotiations. As the statement says, these standards "can create enormous value for consumers and fuel the creation and utilization of new and innovative technologies to benefit consumers."

## Background: The 2013 Statement

Prior to the issuance of this new statement, this question was controlled by a 2013 policy statement, issued jointly by the Antitrust Division of the Department of Justice (DOJ) and the U.S. Patent and Trademark Office (USPTO). The 2013 Statement advised that injunctions or ITC exclusion orders may not be appropriate with respect to SEPs because such orders may be "inconsistent with the public interest":

"When a standard incorporates patented technology owned by a participant in the standards-setting process, and the standard becomes established, it may be prohibitively difficult and expensive to switch to a different technology within the established standard or to a different standard entirely. As a result, the owner of that patented technology may gain market power and potentially take advantage of it by engaging in patent hold-up, which entails asserting the patent to exclude a competitor from a market or obtain a higher price for its use than would have been possible before the standard was set, when alternative technologies could have been chosen."<sup>2</sup>

Favored by many major tech and IT companies, the 2013 Statement provided that if the SEP owner wished to include their IP in standard-setting agreements which offered the full range of remedies, they could only do that if the owner pledges to license them on fair, reasonable and non-discriminatory terms (F/RAND). These tech companies were interested in limiting the enforceability of these patents in the standard-setting context and the terms of any license which might be offered under the SEP. Conversely, many companies whose business is focused on licensing their large patent portfolios generally disliked the 2013 Statement, believing that it unreasonably limited their ability to enforce their patents, specifically their F/RAND-encumbered SEPs.

When the USPTO and DOJ issued the 2013 Statement in January 2013, the two agencies were primarily concerned with the effect of those terms on the patent and antitrust systems by permitting the owner of a F/RAND-committed SEP to obtain injunctive or exclusionary relief in addition to financial remedies. In particular, the concern at the time was whether allowing this understanding would potentially provide inappropriate power in SEP patent owners in both litigation and licensing negotiations. What this focus did not seem to account for, however, was the possibility that it would have an opposite and potentially unfair result by incenting potential licensees to unilaterally infringe

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<sup>1</sup> The term "RAND/FRAND" stands for "reasonable and non-discriminatory (RAND) terms", also known as "fair, reasonable, and non-discriminatory (F/RAND) terms". They are a voluntary licensing commitment that standards organizations often requested from a patent or other intellectual property right which is "essential" to practice a technical standard. The standard-setting organization and the IP owner enter into a voluntary agreement to make that IP subject to a license under F/RAND terms, termed a "commitment". If this commitment is made, it is usually held that the user of that standard-set IP is, in essence, a third-party beneficiary of the F/RAND agreement, and, as such, is entitled to certain rights conferred by the commitment agreement.

<sup>2</sup> <https://www.justice.gov/atr/page/file/1118381/download>, p.4.

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these patents without fear of repercussions or refuse to enter into a license unless ordered to in litigation. Even in that circumstance, it was likely that that license would most likely be the same F/RAND license offered in the first place.

And this is indeed what occurred. Many SEP holders offered F/RAND-termed licenses but found that in many cases the potential licensee simply tried to either out-last the patent holder in licensing negotiations or dared the patent holder to sue for infringement. While this may have been an appropriate business decision in the short term, these actions also contributed to the continued erosion of confidence in the patent system itself and were fundamentally unfair.

Faced with that reality, SEP owners then began to ask whether the 2013 Statement's treatment of exclusionary remedies at the ITC might offer more potential for relief than in traditional patent litigation, despite some apparent limitations on grants of exclusionary orders in the Statement. As stated in the 2013 Statement:

“[a]n exclusion order may still be an appropriate remedy in some circumstances, such as where the putative licensee is unable or refuses to take a F/RAND license and is acting outside the scope of the patent holder's commitment to license on F/RAND terms or by insisting on terms clearly outside the bounds of what could reasonably be considered to be F/RAND terms in an attempt to evade the putative licensee's obligation to fairly compensate the patent holder.”

Unfortunately for SEP owners, this guidance was interpreted to apply only to these specific facts and circumstances. Even worse from their point of view, this also led to an understanding that when the SEP owner offered F/RAND commitments to all standard setting organizations, by doing so they were limiting themselves to only monetary relief in most cases.

## 2019 Statement

While styled as a “clarification”, the intent and effect of the 2019 Statement is, in essence, a reversal of the interpretation of the policy views embodied in the 2013 Statement. Specifically, it stated that all patents, SEP or not, were to be treated equally when it comes to remedies, both injunctions and exclusionary orders, in addition to monetary remedies.

Prior to this withdrawal/clarification, the DOJ signaled that its position on F/RAND-encumbered SEPs had evolved. In a December 7, 2018 speech, Makan Delrahim, Assistant Attorney General for the Antitrust Division, took the position that the 2013 Statement had been “misinterpreted” when it suggested that there was a “special set of rules” for exclusion orders or injunctions as applied to SEPs. Because of this “potential for confusion,” Delrahim announced that the DOJ's Antitrust Division was withdrawing its assent to the 2013 Statement, which in turn led to the consideration of a new statement. In the formal 2019 Statement it was also made clear that the agencies were withdrawing that 2013 Statement.<sup>3</sup>

## Repercussions

As noted, the 2019 Statement establishes that the agencies together believe that F/RAND-encumbered SEPs should be treated the same as all other patents, with the full scope of remedies available to all patent holders, including injunctive or exclusionary relief. As stated in the press statement accompanying the release of the 2019 Statement:

“[T]he Statement clarifies that a patent owner's promise to license a patent on F/RAND terms is not a bar to obtaining any particular remedy, including injunctive relief. The agencies make clear that no “special set of

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<sup>3</sup> It may be worth noting that the 2019 Statement was again issued jointly by the USPTO and DOJ, but now joined by the National Institute of Standards and Technology (NIST), another major technology-focused agency.

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legal rules” apply to SEPs, and the courts, the U.S. International Trade Commission, and other decision makers are able to assess appropriate remedies based on current law and relevant facts.”<sup>4</sup>

While the 2019 Statement noted that it “has no force or effect of law”, it is highly likely that it will be cited by F/RAND committed SEP owners seeking injunctions or exclusion orders. It is also probable that this increased threat of injunctive or exclusionary relief will encourage earlier settlements in infringement litigation and on more balanced terms in the resulting licenses.

It will also likely impact the positions and actions of other Executive Branch agencies or officials. As an example, the U.S. Trade Representative (USTR) has the authority to veto exclusionary orders of the ITC on behalf of the President. In making these determinations, the USTR routinely consults with the DOJ, USPTO and other federal agencies in deciding whether to exercise that veto. The first, and perhaps the most well-known exercise of this authority regarding SEPs, occurred during the patent litigation between Apple and Samsung. The ITC found the exclusion to be an appropriate remedy in an SEP context and issued a final determination, finding a violation of Section 337. As a remedy, it granted a limited exclusion order prohibiting Apple from importing certain wireless communication devices, portable music and data processing devices and tablet computers.

President Obama subsequently exercised his veto authority to overturn that order, one of the very few times this authority has been exercised. One consideration which may have had an effect on that decision may have been his Administration’s 2013 Statement, in particular its antipathy to exclusionary orders in cases dealing with F/RAND-committed SEPs.

Conversely, given the 2019 Statement treatment of the same issue, and thereby expanding the rights that SEP owns, it might be likely that the current USTR would not veto such of an SEP-related exclusion order today.

The change in position may have already had a real-world effect. In addition to the Apple/Samsung case cited above, there has been one other case dealing with ITC exclusionary orders and SEPs. On October 21, 2019, the ITC (Judge Bullock) issued a Notice of Initial Determination finding infringement by SK Hynix of complainant Netlist SEPs relating to certain memory standards and recommending an exclusionary order. Final Determination is still pending at the ITC, which has set a deadline for completing their investigation at April 7, 2020.<sup>5</sup> Since this would be issuing under the 2019, it will be interesting to see what the USTR might do, i.e., maintain or veto the ITC ruling, and how, if at all, their decision is informed by the 2019 Statement.

The difference in treatment of SEPs and “ordinary” patents in the 2013 Statement also had public policy and international implications. It has long been the policy of the U.S. to treat all patents in a consistent manner, the so-called “Unitary Patent,” including patent standards, scope, duration and other features which generally apply across technologies and industries, regardless of the identity of the patent holder, the flexibility of which allows us to more effectively deal with new and constantly evolving innovation. As an example, see the Millennial Study of the U.S. patent system conducted by the National Academy of Science, which maintained and reinforced public policy support for the unitary patent.<sup>6</sup>

The 2019 Statement now aligns the U.S. position under its treaty obligation, which the 2013 Statement disparate treatment had compromised, especially the Trade Related Aspects of Intellectual Property (TRIPS).<sup>7</sup> Maintaining a unitary patent system and adherence to TRIPS is crucial to U.S. interests overseas. Differing treatment of patents

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4 <https://www.justice.gov/atr/page/file/1118381/download>, p.4.

5 [https://www.usitc.gov/secretary/fed\\_reg\\_notices/337/337\\_1089\\_notice\\_01312020sgl.pdf](https://www.usitc.gov/secretary/fed_reg_notices/337/337_1089_notice_01312020sgl.pdf)

6 “A Patent System for the 21st Century” (S. Merrill, et al., Eds.). Committee on Intellectual Property Rights in The Knowledge-Based Economy, Board on Science, Technology, and Economic Policy, Policy And Global Affairs Division, National Research Council of The National Academies, at 42 (2004) (noting that “[t]he flexibility of the patent system is a function of...three features [including the fact that] it is a unitary system with few a priori exclusions”)

7 [https://www.wto.org/english/docs\\_e/legal\\_e/31bis\\_trips\\_01\\_e.htm](https://www.wto.org/english/docs_e/legal_e/31bis_trips_01_e.htm)

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by the U.S. can potentially give license to other countries to weaken patent protection for technologies critical to the U.S. economy, such as pharmaceuticals and medical devices.