

## **US Perspectives**

### **United States Confounded By Standard-Essential Patents \***

Published on 29 July 2013 @ 5:36 pm

By [Steven Seidenberg](#) for Intellectual Property Watch

The United States is in a muddle over standard-essential patents. The nation's courts and its executive agencies all agree that these patents play vital roles in the economy, but they disagree about what remedies are available when these patents are infringed. A recent decision by the US International Trade Commission has added to the confusion.

The USITC's job is to protect US industries from unfair foreign competition. This means, among other things, that if an imported product infringes a US patent, the USITC can issue an exclusion order which forbids the infringing product from being imported or sold in the US.

The agency need not always issue exclusion orders against infringing imports. The USITC can allow continued importation in order to protect the public interest. The agency, however, rarely uses this public interest exception. It almost invariably grants the exclusion order.

And indeed, that's precisely what the USITC did on 4 June, when it [ruled](#) [pdf] that five models of Apple iPhones and iPads infringe a patent owned by rival Samsung. The agency issued an exclusion order that stopped the import and sale of these older, but still popular, Apple products.

This ruling is notable because it is the first time the USITC held that exclusion orders can be issued for infringements of standard-essential patents (SEPs). It is notable, also, because the USITC's decision on this important issue puts the agency at odds with the US Department of Justice, the USPTO, the Federal Trade Commission (FTC), the courts and many legal experts.

#### **SEPs are Different**

SEPs are different from other patents. An ordinary patent becomes an SEP when its owner allows the patented technology to be included in an industry standard, such as Bluetooth or WiFi. These standards enable the interoperability of different products and are a boon to both manufacturers and consumers.

Owners of SEPs receive special benefits and burdens. The main benefit: Since the patent is part of an industry standard, the patented invention is likely to be used by all companies in the industry, significantly boosting the number of businesses paying to licence the patent.

The main burden: In order for the patent to be included in a standard, the patentee must agree to licence its patent to everyone on terms that are "fair, reasonable and nondiscriminatory" (FRAND) or "reasonable and nondiscriminatory (RAND). But according to US courts and agencies, both FRAND and RAND impose the same limitations on patentees.

One of the limitations is that owners of FRAND-encumbered SEPs cannot obtain injunctions against infringers. So said Judge Richard Posner in his June 2012 ruling, [Apple, Inc. v. Motorola, Inc.](#) Judge Posner, one of the most respected jurists in the US, noted that in order to get an injunction from a court, a litigant must prove monetary damages are not an adequate remedy but the owner of a FRAND patent cannot do this. Because the patentee agreed to always licence its patent for a reasonable royalty, any infringement of the patent can be adequately remedied by imposing a reasonable royalty. Thus the owner of a FRAND patent “is not entitled to an injunction,” Judge Posner held. This decision is now being appealed to the Federal Circuit Court of Appeals, sometimes known as the nation’s “patent court.”

### **Executive Branch Confusion**

The Federal Trade Commission has taken a less absolutist position than Judge Posner. The agency [indicated](#) [pdf] that owners of FRAND patents can obtain injunctive-type remedies in limited circumstances: when an infringer has rejected a reasonable licensing offer from the owner of the FRAND patent.

The US Department of Justice and the USPTO appear somewhat more accommodating to owners of SEPs. In a joint [policy statement](#) [pdf], these agencies declared that injunctive-type remedies (such as exclusion orders) can be available even when an SEP owner has not made a reasonable licensing offer. If the offer is unreasonable but a putative licensee refuses to negotiate, injunctive-type remedies “could be appropriate,” the agencies stated.

The USITC, in its 4 June decision, adopted a rule still more favourable to owners of SEPs. Rather than requiring an SEP owner to prove it is entitled to an exclusion order despite its FRAND commitments, the agency held that an alleged infringer bears the burden of proof on FRAND. FRAND is an affirmative defence, and an infringer can prevent an exclusion order only if it proves the SEP owner failed to honour its FRAND commitments. In this case, Samsung made a licensing offer (which was unreasonably high, in the view of some experts), and Apple refused to negotiate. Given these facts, the USITC concluded, “Apple failed to prove an affirmative defence based on Samsung’s FRAND declarations,” and the agency issued an exclusion order against Apple.

The USITC may not have the last word on this exclusion order. The President of the US has until 5 August – 60 days from the date of the USITC’s ruling – to disapprove the ruling on public policy grounds. Such an action “is extremely rare, but this President is very interested in this issue, so it is possible he will act,” said Prof. David Schwartz of Chicago-Kent College of Law.

Even if President Barack Obama declines to act, the USITC’s decision may be reversed. Apple is appealing the USITC ruling to the Federal Circuit Court of Appeals.

### **The Economics of SEPs**

Experts are divided on the appropriate remedies for infringement of FRAND-encumbered SEPs. The best public policy, some say, would be to deny injunctive-type remedies under all circumstances, because of the unique status of SEPs.

Whenever a patent becomes part of a standard, companies in the industry often have little choice but to use that patent. This makes the patent far more valuable than alternative technologies which may be equally good, but are not part of the standard. There is thus a danger of patent hold-up, where the patentee demands unusually high royalty payments simply because the patent is part of a standard.

The danger of patent hold-up increases dramatically if the owner of an SEP can obtain injunctions against any who don't submit to the patentee's royalty demands. "In the context of bargaining, the availability of an exclusion order [or similar injunctive relief] will allow the owner of a single SEP to appropriate a large amount of the value of a product," said Prof. Timothy Simcoe of Boston University School of Management.

The problem of patent hold-up is compounded because standards include many different patents, and each of the patentees is potentially in a position to demand unreasonably large royalty payments. Such patent stacking would impose excessive costs to businesses and consumers, hurting both innovation and the economy. The danger is particularly acute for many products, such as smartphones, that use a variety of industry standards (e.g., WiFi, Bluetooth, and UMTS).

It is very clear from an economic standpoint that when a patent is one of many in a standard, and a standard is one of many in a product, allowing injunctive-type relief exacerbates the problems of patent holdup and patent stacking," Simcoe said.

### **Creating a Delicate Balance**

Some experts, however, believe that owners of SEPs should be able to obtain injunctive-type remedies under certain circumstances. Otherwise, there would be no incentive for anyone using a SEP to negotiate a licence agreement. A company using a SEP would simply wait to be sued for infringement, and "the maximum downside is the amount of money the company would have paid for a licence anyway," Schwartz said. "That just creates a lot of litigation."

Schwartz and similarly-minded experts assert that the best policy is to create a balance between those owning and using SEPs, pushing both sides to negotiate licences in good faith. But striking the right balance isn't easy, largely because of the ambiguity of current FRAND terms. For instance, does an SEP owner comply with FRAND simply by making a licensing offer, regardless of whether the offered royalty is fair and reasonable? When is a royalty fair and reasonable – and how can that be determined?

The best way to deal with the problem is for standard-setting organisations (SSOs) to clarify the principles that should be used to determine whether SEP owners are complying with the FRAND promises they make. If SSOs create clear rules – such as an SEP owner cannot obtain an injunction until after a licensee has refused a FRAND offer – that's the best way forward," Simcoe said.

SSOs are now trying to create clearer rules, but success is uncertain. That's because many SSO members are powerful companies that have a keen interest in squeezing the most value from their SEPs. They are likely to resist clearer rules that limit their bargaining power.

I don't know where the SSOs will end up on this," Simcoe said. "Everyone is paying attention, but these are not easy issues."

### **Related Articles:**

- [Royalty-Setting For Standard Essential Patents Might Be Balanced By Prospect Of Injunction, Speakers Say](#)
- [US And UN Consider New Limits On Patent Wars](#)
- [US Issues Statement On Injunctions In Cases Of Standards Essential Patents](#)

**Steven Seidenberg** is a freelance reporter and attorney who has been covering intellectual

*property developments in the US for more than 15 years. He is based in the greater New York City area and may be reached at [info@ip-watch.ch](mailto:info@ip-watch.ch).*

Categories: [Subscribers](#), [Access to Knowledge](#), [Education/ R&D/ Innovation](#), [Enforcement](#), [English](#), [IP Law](#), [Patent/Design Policy](#), [Perspectives on the US](#), [US Policy](#)

