



# The impact of recent decisions regarding patent hold-up on the future of standards-setting activities

BY MICHAEL T. RENAUD AND SANDRA J. BADIN

Earlier this year, Qualcomm and InterDigital, two major contributors to the development of wireless telecommunications standards, announced they would not be making licensing commitments under the new patent policy introduced by the Institute of Electrical and Electronics Engineers (IEEE). Among other changes, the IEEE's new patent policy makes it much more difficult — and in some cases impossible — for patent owners who have contributed their patented technology to the development of an IEEE standard to seek an injunction or other “prohibitive order” against the implementers of that standard who are using their patented technology without a license. A few weeks after Qualcomm and InterDigital's announcement, Ericsson and Nokia followed suit.

This may be just the beginning. A number of important recent court and agency decisions may cause other major contributors to opt out of standards-setting activities. A brief review of these decisions suggests there is a growing concern over what has come to be known as “patent hold-up” — when owners of standard essential patents or “SEPs” (allegedly) try to extract a higher royalty rate for the use of their SEPs once the standards into which those SEPs are incorporated have become widely adopted, than they otherwise would have been able to obtain for the patents on their own. As Administrative Law Judge Theodore R. Essex of the International Trade Commission (ITC) has cautioned, however, a singular focus on patent hold-up, and the attendant restriction on the ability of SEP holders to seek injunctive relief, may ultimately make it more likely that innovators will simply decide not to participate in standard-setting activities in the first instance, potentially retarding the pace of innovation in this country and abroad.

## A Word on Standards

Industrial standards play an important role in the modern world. Among other functions, standards ensure that our various mechanical, electrical, and telecommunications systems and devices are compatible and interoperable — that smartphones made by Apple and Samsung, for example, have the same Wi-Fi capability and can communicate with each other on the same network. Standards are often set by standards setting organizations (SSOs), which typically comprise voluntary, private sector associations of businesses. Many SSO participants contribute their patented technology to the development of standards. Because they stand to benefit from the adoption of standards that include their patented technology, contributors often agree to license their SEPs on fair, reasonable and non-discriminatory (FRAND or RAND) terms. The question then arises whether and under what circumstances SEP owners who have undertaken

a commitment to license their patents on FRAND terms may be permitted to seek injunctive relief against unwilling licensees — i.e., against infringers of their patented technology who refuse to take a license. Three recent decisions try to address this question.

## Three Recent Decisions of Interest

**1. The ITC:** In June, Administrative Law Judge Essex issued the public version of his Initial Determination on Remand in ITC investigation No. 337-TA-613, *In the Matter of Certain 3G Mobile Hand-sets and Components Thereof* (the 613 Investigation), in which he elaborated an evidence-based framework for adjudicating the increasingly frequent allegations of patent hold-up at the ITC, and the concomitant argument that SEP owners should not be entitled to an exclusion order — an order enjoining the adjudicated infringer from importing infringing goods into the United States — which is the only meaningful kind of relief the ITC is empowered to grant, because by filing a complaint with the ITC, SEP owners have violated their obligation to license their patents on FRAND terms.

After evaluating the parties' submissions and other data in the 613 Investigation, Judge Essex observed that while patent hold-up is a theoretical possibility, there is no evidence it has ever occurred in the real world. Without evidence of actual patent hold-up, he said, there is no justification for depriving an ITC complainant of the statutory remedy to which it is otherwise entitled.

Federal Trade Commission (FTC) Chairwoman Edith Ramirez disagreed. Writing on her own behalf, Ramirez submitted a public statement to the ITC, which was reviewing Judge Essex's Initial Determination, arguing that patent owners should have to prove they did not engage in patent hold-up before they may be entitled to relief. Two of Ramirez's colleagues disagreed. In their own public statement to the ITC, FTC Commissioners Maureen K. Ohlhausen and Joshua D. Wright noted they “support [Judge] Essex's evidence-based approach,” which requires accused infringers to prove actual hold-up before a patent owner may be deprived of its statutory remedy.

The ITC has yet to weigh in on these issues, but whatever approach it ultimately adopts will likely have a significant impact on the future participation of many major contributors to standard-setting activities.

**2. The Ninth Circuit:** In July, the Ninth Circuit Court of Appeals issued its much-awaited decision in the breach of contract action brought by Microsoft alleging that Motorola had violated its commitment to license its SEPs on RAND terms. The Ninth Circuit upheld the jury's finding that Motorola had breached its duty of good faith and fair dealing when it: (a) offered to license its SEPs to Microsoft at rates above what the lower court ultimately determined

was the RAND range, and (b) sought to enjoin Microsoft from making and selling products incorporating standards comprising Motorola's patented technology in the U.S. and Germany. Motorola had sued for injunctive relief only after Microsoft “responded” to Motorola's licensing offers by suing for breach of contract. The Ninth Circuit concluded there was enough evidence to suggest “that Motorola sought to capture more than the value of its patents by inducing holdup” and that it had filed its injunctive actions to further its hold-up strategy.

In arriving at its conclusion, the court did not address, let alone consider, Microsoft's apparent refusal to engage Motorola in licensing negotiations (and its decision to “respond” to Motorola's licensing offer by suing for breach of contract). The court thus left open the question of what constitutes an “unwilling licensee” and whether SEP owners facing unwilling licensees are ever permitted to seek injunctive relief when enforcing their patents.

**3. The EU Court of Justice:** Also in July, the Court of Justice of the European Union (ECJ) took up the question of whether seeking injunctive relief for infringement of SEPs may run afoul of Article 102 of the Treaty on the Functioning of the European Union (TFEU), which prohibits companies that enjoy market dominance from abusing their dominant position by, among other means, “limiting production, markets or technical development to the prejudice of consumers.”

Although acknowledging that the owners of SEPs have the statutory right to bring actions seeking injunctive relief for infringement, the court explained that SEP owners must first meet various conditions to avoid being liable for abusing their market dominance: they must provide alleged infringers with both notice they are infringing (along with a specification of how they are infringing), and a specific offer to license on FRAND terms (along with a description of how the proposed FRAND royalty rate was calculated). Only after a patent owner has fulfilled these obligations, and “the alleged infringer has not diligently [and promptly]

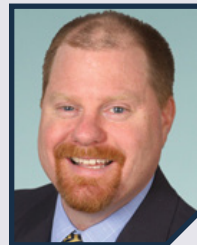
responded to [the patent owner's licensing] offer” either by accepting the offer or by making a specific FRAND counteroffer in writing, may the patent owner seek injunctive relief without potentially abusing its market position.

## Implications

The future of standard-setting activities is uncertain. Balancing the competing concerns of innovators and of implementers is critical. As Judge Essex has noted, without the threat of injunctive relief, implementers of standards may not have enough of an incentive to engage in licensing negotiations — let alone an incentive to pay a royalty for using the patented technology of others — because they know that, at worst, they will get sued and will be made to pay the same FRAND rate they would have had to pay for using the patented technology in the first place. If the implementers of standards do not have an incentive to pay to use the patented technology embodied in those standards, then innovators will no longer have any incentive to contribute their patented technology to the development of those standards, and the development of standards will suffer as a result.

A singular concern over patent hold-up may skew the balance to such a degree that innovators will be incentivized to opt out of standard-setting activities altogether. Such an outcome will not only hurt consumers and businesses, who have come to take the interoperability of their devices and systems for granted, but may hurt the future of American technological innovation, which relies on the participation and cooperation of innovators across many different businesses and organizations working together to develop and refine the basic platform on which much of the world's technological development now rests. ■

.....  
This article appeared in the December 2015 edition of the ComCom Quarterly, the newsletter of the Complex Commercial Litigation Section. For more articles like these on business litigation, bankruptcy, and intellectual property topics, check out the Quarterly at <http://is.gd/IFJCJw>.



The Division Head for the Intellectual Property Section at Mintz, Levin, Cohn, Ferris, Glovsky and Popeo PC, **Michael T. Renaud** is an experienced litigator known for his business approach to identifying and creating value in patent assets and for his ability to develop successful strategies for the monetization of patent portfolios involving complex technologies, through the purchase and sale of patent assets, licensing, and litigation. He also has extensive experience prosecuting and defending patent cases and appeals.

A senior associate in the Intellectual Property Section at Mintz, Levin, Cohn, Ferris, Glovsky and Popeo PC, **Sandra J. Badin** has substantial trial and appellate experience litigating patents across a wide range of technology fields before the U.S. International Trade Commission, the federal district courts and the Court of Appeals for the Federal Circuit.