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New Draft Policy Will Create Obstacles For SEP Owners

By **Ryan Davis**

Law360 (December 21, 2021, 9:39 PM EST) -- The Biden administration's position that the public interest could be harmed by owners of standard-essential patents seeking injunctions will provide new leverage to accused infringers and potentially create risk for patent holders, although courts will have the last word, attorneys say.

The U.S. Department of Justice and the U.S. Patent and Trademark Office unveiled a draft policy statement this month on the contentious issue and will accept public comments on the proposal until February. The agencies' view essentially reverses the Trump administration's 2019 position that injunctions should be available to owners of standard-essential patents when those patents are infringed.

The new policy is in line with a view taken by the Obama administration in 2013, although it goes further in some ways. While it does not have force of law and is not final, the government's stance on what SEP owners should do with their patents is likely to shape licensing negotiations and may be influential to judges.

The new statement has key differences from the 2019 policy, going from a position that pledges by patentees to license standard-essential patents on fair terms "need not act as a bar to any particular remedy," including injunctions, to one saying that legal precedent and the public interest "generally mitigate against an injunction."

"The new guidance stops short of saying very clearly that injunctive relief should never be available for infringement of SEPs, so I think that's notable. But the agencies' views on this are pretty clear that injunctive relief shouldn't be appropriate in most circumstances," said Christopher Yook of King & Spalding LLP.

He noted that in addition to being a signal to litigants and judges, the policy signals that the government could bring antitrust investigations if SEP owners refuse to license patents on fair terms. That is "the real hammer that the agencies have, since they can't come in and change the law that the courts are going to apply," he said.

Michael Renaud of Mintz Levin Cohn Ferris Glovsky and Popeo PC said the draft policy effectively puts the administration's imprimatur on a framework that Germany's highest court **rejected last year**, finding that it allowed accused infringers to drag out SEP negotiations and not agree to licenses.

He said he expects such potential licensees, which are referred to as implementers of SEPs and are often large tech companies, will now start doing exactly that in the U.S. "It'll chill the market for sure," he said.

"There is already a problem with endless negotiations," Renaud said. "All this does is really confirm at the highest levels of the executive branch that those techniques that are being used to delay and avoid licensing are approved."

While the policy isn't dispositive on its own in litigation, it amounts to the government agencies "putting their thumb on the scale" in a way that could persuade judges not to grant requests by patentees to block infringing products, compared to the Trump administration's position, which was "much more injunctive relief friendly," said Colby Springer of Polsinelli PC.

"It's ultimately the courts that decide, so this is another arrow in the quiver," he said. If a judge is on the fence, the federal government's view carries weight and may be "the final straw that breaks the camel's back" and leads to the denial of an injunction, although it might not drive any result by itself, he added.

Still, the executive branch's position can be highly influential in the outcome of SEP disputes. In 2013, the Obama administration cited its statement when it vetoed an import ban that Samsung won against Apple at the U.S. International Trade Commission based on a standard-essential patent.

"Hold Up" vs. "Hold Out"

Standard-essential patents cover technology that must be used to implement industry standards, like 4G or Wi-Fi. As a result, their owners often pledge to standard-setting organizations that they will license the patents on terms that are fair, reasonable and nondiscriminatory, or FRAND.

What constitutes a FRAND rate is usually hotly debated between the patent owner and companies that implement the standard in products accused of infringement. The fluctuating positions between presidential administrations reflect differing views of the impact a threatened or actual injunction can have on competition and consumers.

The Biden and Obama administrations have expressed concern that by threatening or securing an injunction, which would prohibit companies from implementing patents they need to use to make their products work, SEP owners could "hold up" implementers and secure higher royalties than would actually be fair, reasonable and nondiscriminatory, harming consumers and the public interest.

The Trump administration took the view that disputes over SEPs should be decided based on generally applicable laws, and that the ability to obtain injunctions is necessary to preserve competition and incentive for innovation for patent owners. It maintained that without injunctions, implementers could "hold out" in negotiations by refusing to agree to rates that are FRAND.

Mintz's Renaud said the Biden administration's new statement will encourage SEP users to hold out, because if implementers know there is a limited risk of an injunction, they can prolong negotiations by seeking information from the patent owner they are unlikely to get, such as confidential license agreements, without making a counteroffer.

"There's endless gamesmanship that is allowed for under the very proposal that they've made, which is either naive or ill-informed, or I guess that could just be the intent," Renaud said.

By staking out a view that injunctions are often disfavored, the Biden administration's new draft statement "is not quite as favorable to patent owners as the 2019 statement, but in its current form, it still has helpful language illustrating more common scenarios when injunctive relief would be appropriate," said Paul Ragusa of Baker Botts LLP. He noted that the draft provides "more concrete" guidance than the previous statements.

Defining Willingness

For instance, the draft says that an injunction may be justified when a potential licensee is unwilling or unable to enter into a FRAND license, such as by refusing to pay a rate set by a court or other neutral decision maker.

However, it also says that potential licensees should not be deemed unwilling to take a license if they agree to be bound by a rate adjudicated by a neutral party, or if they reserve the right to challenge the patent's validity or whether it is actually essential to the standard.

In that sense, Polsinelli's Springer said, "It's not giving potential licensees or implementers a free pass. It indicates that implementers have to participate in good faith, and I think the 2021 draft statement is very clear in that regard."

Yet the draft also states that making a FRAND commitment indicates that the patent owner is willing to license and will not exercise market power obtained through standardization, meaning that seeking an injunction without engaging in good faith negotiations with a potential licensee is inconsistent with a FRAND commitment. That "really goes much further" than the 2013 statement, Springer said.

"On the surface, all of this appears to be completely reasonable, but anybody who is actually intimately aware of this market would know what this actually says and how it will be used" by accused infringers to avoid agreeing to license standard-essential patents, Renaud said.

But he said he had a sense of cautious optimism because the government asked for public comment before adopting a final policy, including about how the framework could be improved. He said that in his view, the best way to improve it would be to require implementers to make a counteroffer, something not found in the draft policy.

If the agencies are serious about making SEP negotiations more efficient, the questions on which they are seeking comment "should reveal the challenges presented by this framework," Renaud said.

Since many products involving standard-essential patents are sold around the world, disputes often take place in parallel courts in many countries, a state of affairs a London judge complained about last month. The U.K. government announced its own review of SEP policy soon after the U.S. did.

"Currently, it's a thorny situation, and we're seeing it not just here in the U.S., but we're seeing it globally," said Ragusa of Baker Botts.

While changes to U.S. policy are the norm in many areas when a new party takes control of the White House, that often isn't as much of an issue in patent law, so having three different SEP policies in eight years has been dismaying for companies planning long-term strategies.

"Unfortunately, I think the reality is that every time the government changes their position on a topic

like this, first of all, it's confusing for businesses, and secondly, I think it potentially dilutes the impact of a statement like this because … is it going to change under the next administration?" said Yook of King & Spalding. "It introduces uncertainty when there's constant change like this."

--Editing by Jill Coffey and Michael Watanabe.
