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New Injunction Policy Boosts Power Of Essential Patents

By **Ryan Davis**

Law360 (January 9, 2020, 10:16 PM EST) -- The U.S. Patent and Trademark Office's decision to endorse the Justice Department's view that injunctions should be available in cases involving standard-essential patents will give patentees more negotiating leverage and may increase their odds of securing sales bans, attorneys say.

The USPTO and the DOJ's Antitrust Division said in December that patents essential to industry standards like Wi-Fi and 4G should be treated the same as all other patents, and that companies that own them should be able to obtain injunctions.

The new policy replaces a joint statement the agencies issued in 2013 under the Obama administration, which warned that allowing the owners of patents essential to industry standards to seek injunctions on infringing products has the potential to harm competition. The DOJ withdrew from that statement in 2018.

While the current administration's views are not binding on the courts or the U.S. International Trade Commission, attorneys expect them to have an impact. Since owners of standard-essential patents know that they have the executive branch on their side, "it may embolden them to be more aggressive in their negotiations," said Nicholas Groombridge of Paul Weiss Rifkind Wharton & Garrison LLP.

"If you're a rightsholder in this situation, you would recalibrate to some extent to say, 'The risk that I face some competition law exposure somewhere in the future if I adopt a robust position is reduced,'" he said. That could lead them to seek relatively higher licensing rates for their patents and be somewhat less willing to compromise in negotiations, he noted.

The new policy could also serve as an invitation for owners of standard-essential patents to bring more cases in the U.S.

"To those equivocating about whether they should assert their standard-essential patents in the United States because of concerns about the 2013 joint statement, this should greatly reduce their reluctance to do so, whether in the district court or the ITC," said Michael Renaud of Mintz Levin Cohn Ferris Glovsky and Popeo PC.

Standard-essential patents raise competition issues because they must be used in order for products to work on widely adopted standards like 4G. Owners of such patents thus usually pledge to license them

on terms that are fair, reasonable and non-discriminatory, or FRAND.

The agencies said in their 2013 statement that the threat of an injunction banning sales of products found to infringe standard-essential patents could harm competition by allowing patent owners to obtain licensing rates that are higher than they otherwise would be able to — and that are not fair, reasonable and non-discriminatory.

The new statement said the old one had been misinterpreted to suggest that injunctions should not be available for essential patents, when in fact a "FRAND commitment is a relevant factor in determining appropriate remedies, but need not act as a bar to any particular remedy."

"A balanced, fact-based analysis, taking into account all available remedies, will facilitate, and help to preserve competition and incentives for innovation," as well as the standard-setting process, the DOJ and USPTO said.

Some attorneys said they found the new statement somewhat perplexing. The 2013 statement never said injunctions shouldn't be available for standard-essential patents, and said they are sometimes warranted. The new statement says the old one could be misread, yet also acknowledges that there could be times when injunctions shouldn't be granted.

"The two sides of this argument are to a degree talking past each other," said Christopher Kelly of Mayer Brown LLP. Whether an injunction should be granted involves more factors than just whether a standard-essential patent is involved, he said, so "each side is arguing with a caricature of the other side's argument."

Nevertheless, while courts are not now compelled to issue injunctions, the new statement is "obviously persuasive and influential," said Ted Stevenson of McKool Smith PC, who represents patent owners in FRAND cases.

"I think companies that were trying to enforce patents were doing that anyway, but this gives a little more comfort to patent owners that at the end of the day, the court is likely to have a remedy that helps them get deals done that are fair, reasonable and non-discriminatory," he said.

Even without force of law, the new statement could have a subtle effect of making judges more inclined to grant injunctions, Groombridge said.

"I would see it as a use of the bully pulpit, of saying this is what we who are presumably experts in the field think that the rule should be, and that has to be entitled to something," he said.

Discussion about the statement will shape how the patent and competition community see the issue, "so it can't help but have an influence of turning the dial to some degree in favor of rightsholders," he said. However, the impact is somewhat mitigated by the fact that disputes over standard-essential patents often span the globe, and competition authorities in other countries may not agree with the DOJ and USPTO, he noted.

One of the focal points for discussions about standard-essential patents is the ITC, which does not award damages but can issue exclusion orders barring imports of infringing products.

That powerful remedy was singled out for concern in the 2013 statement, and soon after it was issued,

the U.S. Trade Representative vetoed an ITC exclusion order barring imports of Apple iPhones found to infringe a standard-essential Samsung patent.

The new policy suggests that the Trump administration would not take the same action if the ITC were to issue an exclusion order on an essential patent, and a test case could soon illustrate the effect it will have for patent owners and the ITC.

An ITC judge last year recommended an exclusion order for SK Hynix memory modules found to infringe two standard-essential Netlist patents, and that decision is now under review by the ITC. It is set to decide next month whether to issue an exclusion order, and that determination will be reviewed by the White House.

Since there now appears to be a clearer path for owners of standard-essential patents to win exclusion orders at the ITC, there is likely to be an uptick in such cases at the commission, said John LeRoy of Brooks Kushman PC.

"There's no doubt that SEP owners will now leverage the ITC," he said. "If I'm a patent holder and I have the USPTO and DOJ 2013 statement, I might think twice before initiating action at the ITC. Now I won't think twice."

Attorneys who represent patent owners and those who represent defendants who have adopted industry standards had starkly different views on whether the new policy is sound.

Stevenson said defendants in standard-essential patent cases often "drag their feet and don't sign the deals, so really the only thing that can make them do that is litigation and potentially the threat of an injunction." The policy statement endorsing injunctions will aid patentees by giving them leverage to persuade defendants to license the patents, he said.

If those companies believe the license offer is not fair, reasonable and non-discriminatory, they can file suit and ask a court to set a FRAND rate, he said. But companies that do that sometimes do not commit to pay the rate the court sets.

When a court sets FRAND terms, "the implementer ought to take them, and if they don't take them, I think an injunction is fully appropriate until they do enter into a license," Stevenson said.

LeRoy, who defends automotive companies in essential patent cases, said that unlike in other patent cases where defendants choose to infringe, companies need essential patents to maintain interoperability of their products.

From the perspective of those companies, owners of essential patents often request licensing terms that far exceed a FRAND rate, he said. But threatened with an injunction, implementers may have no choice but to pay the excessive rate. The 2013 statement recognized that injunctions mean patentees "hold an unfair advantage," he said, but the new policy jettisons that useful guidance.

The risk is particularly acute at the ITC, which does not establish FRAND rates and can issue an exclusion order more quickly than a district court could calculate such a rate in a parallel case, LeRoy said.

The new policy "is going to further the conundrum and force a willing licensee to pay an unreasonably high rate," he said.

--Editing by Kelly Duncan and Emily Kokoll.