PROGRAM MATERIALS
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Developments in Standard Essential Patents

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THE EVOLUTION OF STANDARD ESSENTIAL PATENTS

History of Standards

Baltimore fire of February 7th and 8th of 1904 points to the necessity of standards.

In the Administration

Standard Development Organizations (SDOs) facilitate the development of complex technology standards which, in turn, promote interoperability, efficiency and innovation for consumer products. 5G, a well-known telecommunication standard, will change the world by stimulating diverse innovations and new consumer products that rely on cutting-edge technology contributed to this open standard.

The common requirements for an SDO are that technology contributors (typically those who invest heavily in development of the standard) indicate their future licensing intentions for any patents they own or may come to own that might read on the standard (often known as Essential Patents). Such intentions typically reflect an assurance to provide access to Essential Patents on (Fair,) Reasonable and Non-Discriminatory (F/RAND) terms.

Antitrust enforcers recognize the benefits to the consumer of having a common standard in that more competition and cheaper products result thanks to lower barriers of market entry and enhanced efficiency. But they also recognize the potential market power that may be created by incorporation of a patents into the standard. F/RAND assurances have long been recognized as mitigating potential antitrust concerns because it provides the potential users access to the standard (including all original developers) on F/RAND terms, while ensuring adequate compensation to contributors to the standard

In the past, especially between 2012-2015, the U.S. Department of Justice Antitrust Division (DOJ) had expressed concerns about potential for “hold up” by the owners of Essential Patents where the owner tries to get more than the F/RAND value of Essential Patents after it has been incorporated into the standard. Another potential problem also recognized by antitrust enforcers is “hold out” where a potential infringer refuses to take a license or mandates a sub-F/RAND rate.

In 2013, the leadership of the DOJ United States Patent and Trademark Office (USPTO) jointly issued a Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments (2013 Policy Statement). The Statement was targeted at the International Trade Commission (ITC). It was premised on the assumption that an injunction or exclusionary order to enforce a standards essential patent “may be inconsistent with the public interest” in ITC cases as the patentee had supposedly agreed to license at F/RAND rates. . The other U.S. antitrust agency – the Federal Trade Commission - did not join the 2013 Policy Statement.

On December 7, 2018 Makan Delrahim, who is the first-ever AAG who is also a patent attorney, announced the withdrawal of the DOJ Antitrust Division from the 2013 Policy Statement.

The joint statement was widely viewed as the statement of Administrative policy and the withdrawal of the Antitrust Division led the patent and antitrust communities to believe that the USPTO would have followed the DOJ’s decision to withdraw, or that a new policy was imminent. But after nearly a year, the USPTO had not disavowed the 2013 Policy Statement and no new statement was seen as being forthcoming.

The Antitrust Division changed its position with the change of Administration because the new AAG believed that the 2013 Policy Statement skewed too heavily in favor of technology users (sometimes called implementers) as opposed to patent holders. In addition, there is no empirical evidence that “hold up” – the motivation for the 2013 Policy Statement in the first place – represents a systemic problem, while on the other hand there are plenty of examples of “hold out”. Therefore, the AAG stated that the Antitrust Division would focus more on “hold out” as opposed to “hold up”. He further argued that antitrust law was not necessary to resolve the issues as common law provided adequate remedies. Mr. Delrahim asserted that the DOJ would not use antitrust laws to pursue patent holders who seek injunctions against infringers of Essential Patents. The DOJ submitted a statement of interest in the Lenovo v. IPCom case, explaining why the seeking of an injunction against infringement of Essential Patents or of purportedly supra-F/RAND rates is not a violation of U.S. antitrust laws.

We had lived for six years under the 2013 Policy Statement and now have data indicating that patent "hold out" is a significant problem. Furthermore, the 2013 Policy Statement has been often misread in foreign jurisdictions, and used to justify antitrust overreach. It has also been misread broadly beyond its original ITC scope. In 2014, The Court of Appeals for the Federal Circuit (CAFC) in Apple Inc. v. Motorola Inc found that the eBay test worked for Essential Patents and that therefore there is no reason to create a separate rule or analytical framework for addressing injunctions against their infringement. While a license is ideally the norm for Essential Patents, injunctive relief is a necessary tool against implementers who are unwilling or unable to pay F/RAND rates. Too frequently the licensing process has been difficult for innovative companies that attempt to license F/RAND-assured patents as implementers recognized that under the 2013 Policy Statement, they could "hold out" and the only remedy at the end of any years-long process would still be a license at F/RAND rates. The ITC, recognizing the problem, has recently granted an exclusion order on an SEP.

On December 19, 2019, the United States Patent and Trademark Office (USPTO, National Institute of Standards and Technology (NIST) and the U.S. Department of Justice, Antitrust Division (DOJ), issued a *Joint Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments* ("2019 Joint Policy Statement"). This Joint Policy Statement explains that "[c]onsistent with the prevailing law… injunctive relief, reasonable royalties, lost profits, enhanced damages for willful infringement, and exclusion orders issued by the U.S. International Trade Commission… are equally available in patent litigation involving standards-essential patents."

As a part of this newly minted Joint Policy Statement the USPTO has now formally withdrawn from the 2013 Joint Policy Statement. "[T]he USPTO and the DOJ withdraw the 2013 policy statement, and together with NIST issue the present statement to clarify that, in their view, a patent owner's F/RAND commitment is a relevant factor in determining appropriate remedies, but need not act as a bar to any particular remedy," the 2019 Joint Policy Statement reads in part.

The 2019 Joint Policy Statement recognized the untenable nature of the 2013 policy statement, specifically noting that "other agencies and courts in the United States and internationally, have developed additional experience with disputes concerning standards-essential patents," and "that the 2013 policy statement has been misinterpreted to suggest that a unique set of legal rules should be applied in disputes concerning patents subject to a F/RAND commitment that are essential to standards (as distinct from patents that are not essential), and that injunctions and other exclusionary remedies should not be available in actions for infringement of standard-essential patents." The 2019 Policy Statement goes on to explain that withholding exclusionary rights is detrimental to the patent system, innovation and dynamic competition.

The 2019 Joint Policy Statement also points out that the rejection of "a specific set of legal rules that limit remedies for infringement of standards-essential patents subject to a F/RAND commitment is also consistent with the holdings of the U.S. courts to date," citing to *eBay* which required application of the traditional principles of equity and eschewed any rigid, bright line or absolute test.

In US Courts

On August 11, 2020, in FTC v. Qualcomm, the Ninth Circuit reversed the May 21, 2019 decision by Judge Lucy Koh of the U.S. District Court for the Northern District of California. Qualcomm makes and supplies semiconductor chips for cellphones. that are used in cellphone handsets. Cell phone maufacturers purchase chips for the cellphones so they can communicate across the network. Qualcomm also holds standard-essential patents covering cellular standards and is a member of a Standard Development Organizations that require members to license their SEPs on fair, reasonable, and nondiscriminatory terms. The Ninth Circuit held that Qualcomm's patent licensing program was not unlawfully anticompetitive, and vacated Judge Koh's permanent, worldwide injunction that had prohibited several of Qualcomm's core business practices. The Ninth Circuit held that Qualcomm did not have an obligation to license its standard-essential patents to competing chip manufacturers under an antitrust theory. Qualcomm was also not prevented from licensing that required chip purchases and the court determined that Qualcomm's rates were not unlawful.

Notably the court did not rule on whether Qualcomm's participation in the standard setting bodies created a contractual duty to deal with rivals, just that such a breach would not be an antitrust violation.

Ninth Circuit's decision affirmed the existing business practices of licensing tied to chip sales at least with respect to antitrust and answered many of the SEP licensing model questions in the industry.

International Activity

In its Judgment of 26 August 2020, the UK Supreme Court affirmed the lower court decisions in the earlier cases of *Unwired Planet v. Huawei* and *ZTE v. Conversant*. The UK Supreme Court determined that a UK court may enjoin the sale of infringing products that incorporate an industry standard if the parties do not enter into a global license for patents covering that standard.

The case began when Unwired Planet sued Huawei and other smartphone manufacturers for infringing UK patents that it had purchased from Ericsson. The patents were declared essential to the 2G, 3G and 4G wireless telecommunications standards set by an international standard development organization in which Ericsson participated.

Because Ericsson participated in the standards development, they and their successor, Unwired Planet, were bound by FRAND.

Huawei and ZTE are China-based smartphone manufacturers with operations in the UK. Unwired Planet offered to license the patents to them on a worldwide basis, but the Chinese manufacturers objected to their offered royalty rates, claiming that they were not FRAND. Huawei argued that any license entered to settle the UK litigation should cover only UK patents. In 2017 the UK High Court held that a FRAND license between large multinational companies is necessarily a *worldwide* license. And, if Huawei did not agree to such a worldwide license incorporating FRAND royalty rates determined by the court, the court would enter an injunction against Huawei's sale of infringing products in the UK. The Court of Appeal largely affirmed the High Court's ruling.

The UK Supreme Court gave credence to the language and intent of the policy stated by the SDO. The Court used the SDO policy statements to which the participants agreed to provide for a worldwide license , "[i]t is the contractual arrangement which ETSI has created in its patent policy which gives the [English] court jurisdiction to determine a FRAND license"

So we have the Administration in the US recognizing that “hold out” against patent holders was more of a problem than was originally expected and modifying their policy guidance to address that. We have the Ninth Circuit in the US affirming the patent holders rights to license in a manner where limiting competitors was not a violation of antitrust rules. And we have international courts affirming worldwide licensing regimes on the basis of contractual agreements. Patent holders should welcome these developments.