FRAND and Injunctive Relief: Exploring a Standard-Essential Patent Owner's Right to Injunctive Relief

Introduction

Often, an industry-adopted technical standard includes technology covered by patents, and the owners of these patents agree to license the patents on fair, reasonable, and non-discriminatory (FRAND) terms as part of the standard-setting process.[1] This article explores options available to the patent owners when a member of the industry declines to accept a license on terms deemed to be FRAND by the patent owner, and nevertheless, implements the standard.

A technical standard may be defined as an established norm or requirement which provides a common design for a product or process. Examples of technical standards include application programming interfaces, communication protocols (*e.g.*, Wi-Fi and Ethernet), and computer hardware standards (*e.g.*, USB and HDMI), to name a few. While some technical standards may arise as the result of widespread use and acceptance in a market (*i.e.*, "*de facto*" standards) or a government mandate (*i.e.*, "*de jure*" standards), in many instances, the adoption of a technical standard is determined by a standard setting organization (SSO) including manufacturers, engineers, and users of a given industry.

SSOs and IP Rights

Members partaking in the standard-setting process of an SSO meet with the goal of adoption of a technology as a standard for the industry. Participation in the standard-setting process of an SSO is typically voluntary and open to all industry members.[2] However, because of the potential market power resulting from including a member's intellectual property (IP) in a standard, members of an SSO must agree to accept the terms and conditions specified in a given SSO's bylaws. Most SSO bylaws include two requirements governing ownership of IP. First, members must disclose, prior to the adoption of a standard, IP rights of which they are aware that would be essential to the implementation of a proposed standard.[3] Second, members must commit to license any IP that proves essential to an adopted standard on FRAND terms.[4]

While some discrepancies have arisen over the scope of an IP owner's duty to disclose IP,[5] the commitment to license a standard essential patent (SEP) on FRAND terms has "led to an increasing number of litigation claims alleging that one party or another . . . has failed to comply with its FRAND obligations."[6] Even though SEP owners commit to license SEPs on FRAND terms, the "typical SSO patent policy mandating that a royalty be 'fair, reasonable and non-discriminatory' gives little guidance for royalty determination because 'reasonable' can mean different things to a technology owner and a technology buyer"[7]. As a result, many failed licensing negotiations result in litigation between an SEP owner and a party that nevertheless implements the standard in a product.

Entitlement to Injunctive Relief

Given a party's refusal to accept a proposed license which an SEP owner believes includes FRAND terms, what remedies are then available for the SEP owner in light of potential infringement of their IP? Does the embedding of a patent into a standard restrict the SEP owner's "right to exclude others" from making, using, or selling their invention?[8] It is not challenged that, if an SEP owner has offered a FRAND license and an implementer of a standard does not license an SEP associated with the standard, the SEP owner is entitled to damages.[9] But should the SEP owner be entitled to injunctive relief?

In 2011, the Federal Trade Commission (FTC) initiated a policy project to discuss standard-setting issues. As part of the project, a workshop was held, and comments from consumers, academia, and industry members were solicited.[10] Interestingly, one of the questions for which the FTC requested comments was whether a FRAND commitment should preclude a patent owner from seeking an injunction against practice of the standard.[11] Comments both for and against an SEP owner's entitlement to injunctive relief were received. Notably, Broadcom, Cisco Systems, Hewlett-Packard, IBM, and Research In Motion commented that SEP owners should not be entitled to injunctive relief while Microsoft, Nokia, and Qualcomm disagreed.[12] However, those comments are not binding and, perhaps as an indication of the current level of uncertainty surrounding the issue, Microsoft has since published a statement suggesting that it will not seek an injunction against any firm on the basis of an SEP.[13]

Much of the debate stems from the perceived role that the threat of an injunction plays in SEP licensing negotiations. For example, often an implementer of a standard may invest heavily in product design or production facilities associated with a product employing SEP technology, to the point where switching to an alternative technology may prove costly. Later, during licensing of the SEP, "the patentee can use the threat of an injunction to obtain royalties covering not only the value of its invention compared to alternatives, but also a portion of the costs that the infringer would incur if it were enjoined and had to switch."[14] Grounded in the belief that the threat of injunctive relief could negatively affect licensing agreements, theories that committing to license an SEP on FRAND terms constitutes a waiver of an SEP owner's right to seek a court injunction have been developed.[15]

On the other hand, proponents of injunctive relief for SEP owners argue that a "no injunctions rule" for SEPs would harm the current standardization process. They assert that FRAND commitments, which are contracts agreed to by patent owners participating in a given SSO, do not include "no injunctions" provisions. Consequently, "adding a new 'no injunctions' provision to that contract, without patentees' consent, would be inconsistent with freedom of contract."[16] They also emphasize that FRAND commitments are a necessary component of SSO bylaws, designed to secure reasonable conditions for commercial implementation of standards and yet attract the participation of innovators. If an SSO's bylaws are too onerous for innovators, innovators might elect not to participate.[17]

Other supporters of the availability of injunctive relief argue that if SEP owners only relief were an award of damages, "standard adopters would be invited to take their chances in court and begin immediately using the invention without trying to obtain a license."[18] Further, patent owners might even opt to settle for a license that is less than what they consider fair and reasonable, rather than face expensive and uncertain court proceedings for an award of damages.

In the midst of the disagreement, others seem to think that the threat of injunctions on FRAND-obligated patents is a perceived fear that has no factual basis.[19] The Supreme Court has held that the four traditional factors should be considered in making a determination to grant injunctive relief for patent disputes.[20] One of the four factors requires that the alternative of monetary relief must be inadequate.[21] While this is only one factor to consider, some courts have recognized that if a patentee has "engaged in a pattern of licenses under the patent," it may be "reasonable to expect that invasion of the patent right can be recompensed with a royalty rather than with an injunction."[22] Thus, injunctions on FRAND-obligated patents are by no means guaranteed or automatic, and perhaps any perceived threat should be narrowed.

Conclusion

The debate over the availability of injunctive relief for SEP owners has become a closely examined issue, as SEP owners and implementers alike await rulings by the courts and regulatory organizations on the matter. As highlighted by Judge Koh of the Northern District of California, "a number of courts have recognized a legal distinction between a normal patent—to which antitrust market power is generally not conferred on the patent owner, and a patent incorporated into a standard—to which antitrust market power may be conferred on the patent owner."[23] Additionally, the FTC recently expressed concern to Congress about SEP owners obtaining injunctions.[24] In testimony presented before the Senate Judiciary Committee, Commissioner Ramirez alluded to the rise and potential consequences of SEP owners seeking ITC exclusion orders.[25] Finally, the ITU announced that "in light of the worldwide increase in [SEP] litigation" the ITU will host a "high-level roundtable discussion between standards organizations, key industry players and government officials" in Geneva this October, where topics to be discussed include "entitlement to injunctive reliefs."[26] Therefore, the coming months should provide further insight into the availability of injunctive relief for SEP owners.

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Endnotes

1 RAND is a commonly-used synonym for FRAND.

2 Carl Shapiro, *Setting Compatibility Standards: Cooperation or Collusion?, in* Expanding the Bounds of Intellectual Property 86 (Rochelle Dreyfuss, Diane Zimmerman & Harry First, eds. 2001).

3 Mark Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 Calif. L. Rev. 1889, 1904 (2002).

4 *Id*. at 1906.

5 *See Rambus Inc. v. Infineon Techs. AG*, 318 F.3d 1081, 1100 (Fed. Cir. 2003) ("Rambus's duty to disclose extended only to claims in patents or applications that reasonably might be necessary to practice the standard.").

6 Jorge Contreras, *The February of FRAND*, Patently-O (Mar. 6, 2012), http://www. patentlyo.com/patent/2012/03/februaryof-frand.html.

7 *Standard Setting and Market Power; Joint Hearings of the United States Department of Justice and the Federal Trade Commission, Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy* (Apr. 18, 2002) (statement of Richard T. Rapp, President, National Economic Research Associates), *available at* http://www.ftc. gov/opp/intellect/020418rappstiroh.pdf.

8 35 U.S.C. § 154(a)(1) (2011).

9 35 U.S.C. § 284 (2011).

10 Patents and Standards: Tools to Prevent Patent 'Hold-up', http://www.ftc.gov/opp/ workshops/standards/index.shtml (last visited July 31, 2012).

11 Request for Comments and Announcement of Workshop on Standard-Setting Issues, 76 Fed. Reg. 28036, 28037-38 (May 13, 2011).

12 FTC Issues Agenda for Workshop to Explore the Role of Patented Technology in Collaborative Industry Standards, http://www.ftc.gov/os/comments/ patentstandardsworkshop/ (last visited July 31, 2012).

13 Microsoft's Support for Industry Standards, http://www.microsoft.com/about/legal/ en/us/IntellectualProperty/iplicensing/ip2. aspx (last visited July 31, 2012).

14 Federal Trade Commission, The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition 144 (2011), *available at* http://www.ftc.gov/ os/2011/03/110307patentreport.pdf.

15 *See* Joseph Scott Miller, *Standard Setting, Patents, and Access Lock-in: RAND Licensing and the Theory of the Firm*, 40 Ind. L. Rev. 351, 358 (2007); Douglas Lichtman, *Understanding the RAND Commitment*, 47 Hous. L. Rev. 1023, 1026 (2010).

16 Hill Wellford, *Reasons to Reject a "No Injunctions" Rule for SEPs and FRAND-Obligated Patents*, 4 CPI Antitrust Chron., no. 2 (2012), at 2, *available at* http://www.bingham.com/Publications/ Files/2012/04/No-Injunctions-Rule.

17 *Id.* at 3.

18 Damien Geradin & Miguel Rato, *Can Standard-Setting lead to Exploitative Abuse? A Dissonant View on Patent Holdup, Royalty Stacking and the Meaning of FRAND*, 3 Eur. Competition J. 101, 119 (2007).

19 Wellford, *supra* note 16, at 4.

20 *eBay Inc. v. MercExchange LLC*, 547 U.S. 388, 391-92 (2006).

21 *Hoard v. Reddy*, 175 F.3d 531, 533 (1999) ("the inadequacy of one's damages remedy is normally a prerequisite to injunctive relief.").

22 *Polymer Techs., Inc. v. Bridwell*, 103 F.3d 970, 974 (Fed. Cir. 1996).

23 *Apple Inc. v. Samsung Elecs. Co.*, No. 11–CV–01846, 2012 WL 1672493, at *6 (May 14, 2012); *see also Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 314 ("[The value of a patent] becomes significantly enhanced . . . after the patent is incorporated in a standard."); *Research in Motion Ltd. v. Motorola, Inc.,* 644 F.Supp.2d 788, 793 (N.D. Tex. 2008) (explaining that standards essential patents are different from normal patents in that standards essential patents confer monopoly power on the patent owner because "[a] standard . . . by definition, eliminates alternative technologies," and enhances the value of the patent).

24 FTC Testimony Expresses Concern that Owners of 'Standard-Essential' Patents May Obtain Injunctions Enabling them to

Hold Up Other Firms, http://www.ftc.gov/ opa/2012/07/septestimony.shtm (last visited July 31, 2012).

25 *Prepared Statement of the Federal Trade Commission; United States Senate Committee on the Judiciary Concerning Oversight of the Impact on Competition of Exclusion Orders to Enforce Standard-Essential Patents* (July 11, 2012) (statement of Edith Ramirez, Commissioner of the Federal Trade Commission), *available at* http://www.ftc.gov/os/ testimony/120711standardpatents. pdf ("Although all federal district courts must follow the equitable *eBay* injunction analysis, the ITC, another venue in which patentees may litigate, does not. That discrepancy has generated concern that the ITC now is attracting litigation by patent owners that are less likely to meet the requirements to obtain an injunction in federal court, potentially leading to hold-up and any related consumer harm.").

26 High-level ITU talks address rampant patent litigation: Innovation-stifling use of intellectual property to be tackled, http://www.itu.int/net/pressoffice/press_ releases/2012/45.aspx (last visited July 31, 2012).