

Published by **iam**[®]

Intellectual Asset Management
Yearbook
2016

*Building IP value
in the 21st century*

Standard-essential patent monetisation and enforcement

Vringo, Inc
David L Cohen

Standard-essential patent monetisation and enforcement

By **David L Cohen**, Vringo, Inc

A patent is a form of intangible asset. It is often assumed that a patent creates value for its owner by allowing its owner to use the patented invention exclusively, giving the owner an advantage through R&D or licensing. In reality, patents provide these benefits to their owners only if third parties believe that the patents are enforceable in a meaningful way. In other words, someone must believe that a patent can cause financial and/or legal pain, whether through a significant and enforceable damages award or an injunction.

Unfortunately, the phenomenon of reverse hold-up is well known. Many companies implement patented technology without compensating patent owners. Typically, patent owners protect themselves by filing suit for patent infringement and obtaining damages or an injunction. Yet in the context of standard-essential patents – patents that are necessary to make use of industry standards which enable products developed by different manufacturers to interoperate – injunctions are nearly impossible to obtain in certain jurisdictions. In addition, many existing patent valuation theories almost guarantee *de minimis* damages awards for standard-essential patents. As a result – inevitably – certain companies are now manufacturing infringing products and trying to avoid compensation indefinitely. This is forcing standard-essential patent owners either to license standard-essential patents far below their true value or to face costly, protracted litigation to obtain royalties that they should have received at the outset.

In this environment, realising the value of standard-essential patents differs greatly from realising that of other patents. Standard-essential patent owners must be prepared to litigate in numerous jurisdictions around the world – including forums that are more favourable to injunctive relief based on standard-essential patent infringement – in order to prevent infringers from unfairly holding out and thereby depressing the value of their patents. Similarly, when enforcing patents in less friendly jurisdictions such as the United States, standard-essential patent owners must take care to comply with the framework of legal tests and regulations governing standard-essential patent negotiation in order to minimise the cost of litigation and reduce the likelihood of regulatory interference.

Injunctive relief in standard-essential patent context

United States

Traditionally, potential infringers were dissuaded by the threat of injunction. Today, such relief is difficult to obtain generally and almost impossible to obtain with respect to standard-essential patents in the United States. The reason for this requires discussion of the concept of fair, reasonable and non-discriminatory (FRAND) licensing.

Industry standards are promulgated by standard-setting organisations (SSOs) such as the European Telecommunications Standards Institute (ETSI). SSOs typically issue IP rights policies governing the declaration of standard-essential patents. The policies aim

“ Before seeking injunctive relief, a standard-essential patent holder should make at least one licence offer on FRAND terms ”

to balance public use of the standard and the rights of IP owners (eg, see ETSI IP Rights Policy Section 3.1, available at www.etsi.org/images/files/IPR/etsi-ipr-policy.pdf). In other words, an SSO generally seeks to ensure that licences to standard-essential patents are available to companies seeking to implement its standards, while also ensuring that patent owners are adequately compensated for the use of their technology.

Under the ETSI IP Rights Policy, when a patent owner believes that it has a patent that may be or may become essential to an ETSI standard, ETSI requests that it make an “undertaking in writing that it is prepared to grant irrevocable licenses on fair, reasonable and non-discriminatory (‘FRAND’) terms and conditions under such [IP right]” (ETSI IP Rights Policy Section 6.1). The meaning of this commitment is hotly debated. An increasing number of companies are now exploiting that debate simply to manufacture products without taking a licence and thereby pay low or no royalties for the use of standard-essential patents.

Certain administrative agencies considering claims of standard-essential patent infringement have determined that FRAND requires rights holders to engage in good-faith attempts to license that intellectual property on FRAND terms; if they do so, their FRAND obligation is fulfilled (*In the Matter of Certain Wireless Devices with 3G Capabilities and Components Thereof*, ITC Inv 337-TA-800, Initial Determination at 421 (June 28 2013)). If a rights holder has engaged in such attempts, injunctions are not incompatible with standard-essential patent enforcement (see *id.*).

However, other courts and regulators have interpreted FRAND commitments more restrictively, with many arguing that

injunctive relief should be available based on the infringement of a standard-essential patent only where the infringer is an “unwilling licensee” to the patent owner’s patents. Thus, the Department of Justice and the US Patent and Trademark Office (USPTO) issued a policy statement arguing that injunctions may be inconsistent with the public interest, but may be appropriate for an unwilling licensee (Department of Justice and USPTO Policy Statement January 8 2013 at 6, available at www.uspto.gov/about/offices/ogc/Final_DOJ-PTO_Policy_Statement_on_FRAND_SEPs_1-8-13.pdf).

Similarly, regulators have investigated patent holders for their attempts to seek injunctions, resulting in consent orders prescribing specific steps that the patent holder must take before seeking such relief in the future. For example, Google has committed not to seek injunctive relief with respect to standard-essential patents unless:

- six months before seeking injunctive relief, it made a licence offer to the prospective licensee; and
- 60 days before seeking injunctive relief, it provided an offer to arbitrate the terms of a licence to its standard-essential patents on FRAND terms (see *In the Matter of Motorola Mobility LLC and Google Inc*, FTC File 121-0120, Decision and Order at 9-10 (January 3 2013), available at www.ftc.gov/sites/default/files/documents/cases/2013/01/130103googlemotorolado.pdf).

No US court has issued an injunction based on a standard-essential patent and the Office of the US Trade Representative overturned the only such order issued by the International Trade Commission (ITC). Patent infringers have taken notice. The result is a proliferation of patent hold-out. Courts and

regulators have attempted to prevent hold-out by leaving open the possibility of injunctions for standard-essential patents. Yet in practice, these protections are not enough.

An ITC administrative law judge summarised the difficulties faced by standard-essential patent holders, noting that in standard-essential patent litigation:

the patent owner can lose the IPR [IP rights] they believe they have, but if the patent holder wins they get no more than a FRAND solution, that is, what they should have gotten under the agreement in the first place. There is no risk to the exploiter of the technology in not taking a license before they exhaust their litigation options if the only risk to them for violating the agreement is to pay a FRAND based royalty or fee. This puts the risks of loss entirely on the side of the patent holder, and encourages patent hold-out, which is as unsettling to a fair solution as any patent hold up might be. (In the Matter of Certain Wireless Devices with 3G and/or 4G Capabilities and Components Thereof, ITC Inv 337-TA-868, Initial Determination at 14 (June 13 2014)).

Europe

Traditionally, in Europe, injunctions were available to holders of standard-essential patents, and have been granted in, for example, France, Belgium, the Netherlands and Germany. In Germany and the Netherlands, a FRAND doctrine has been developed which aims to strike a fair balance between the interests of the rights holders and those of good-faith implementers of the standard in question.

In the *Orange Book* decision (May 6 2009) the German Federal Court of Justice ruled that a standard-essential patent holder seeking an injunction abuses a dominant position only if:

- the alleged infringer made an unconditional offer to conclude a licence agreement, which cannot be rejected unreasonably or discriminatorily; and
- where the putative licensee is alleged to have previously infringed the patent, it complies with all obligations in the proposed licence agreement, including the payment of royalties and the rendering of accounts.

This framework has been much used in Germany.

A similar approach exists in the Netherlands (see *Phillips v SK Kassetten* (District Court of The Hague, March 17 2010)). The Dutch approach emphasises that FRAND does not preclude the standard-essential patent holder from enforcing standard-essential patents, including seeking injunctions. Only in “special circumstances” will such enforcement be considered to be an abuse of right – for example, if the enforcement is aimed at unduly pressurising a third party into accepting non-FRAND conditions.

With the intervention of the European Commission in the *Motorola* and *Samsung* decisions (April 29 2014), the term ‘willing licensee’ has now become key in the field of standard-essential patent enforcement in Europe. According to the European Commission, a standard-essential patent confers a dominant position and, although the European Commission accepts in principle that a standard-essential patent holder is entitled to injunctions, the exceptional circumstances under which no such entitlement exists are formulated broadly. Essentially, where an alleged infringer is a willing licensee, injunctions are proscribed. The exact criteria for what makes one a willing licensee remain unclear, opening the door to abuse and uncertainty.

This situation prompted the Dusseldorf Regional Court to request a preliminary ruling from the European Court of Justice (ECJ) to provide clarity on the approach to be followed in cases of standard-essential patent enforcement (*Huawei v ZTE*, Case C-170/13). Interestingly, the court not only pointed to the risk of hold-up by the patentee, but also warned against reverse hold-up if injunctive relief were no longer available to the patentee (see Dusseldorf Regional Court, March 21 2013, paragraph 36).

On November 20 2014 Advocate General Wathelet opined on *Huawei v ZTE*. He disagreed with the notion that standard-essential patents automatically result in dominance, arguing for determination on a case-by-case basis (*id* 57 of the opinion). A standard-essential patent holder is entitled to injunctions and seeking injunctions

may be an abuse of a “dominant position only in exceptional circumstances, given the importance of the right of access to the courts” (paragraph 67). Both the standard-essential patent holder and the alleged infringer must fulfil certain requirements:

- The standard-essential patent holder must provide the alleged infringer with the necessary information to determine the licence offer; and
- The alleged infringer must respond “in a diligent and serious manner... the bringing of an action for a prohibitory injunction would not constitute an abuse of a dominant position if the infringer’s conduct were purely tactical and/or dilatory and/or not serious” (paragraphs 84-89).

A balanced view indeed. It is now up to the ECJ to provide clarity.

Brazil

Brazilian IP law specifically provides for injunctive relief as a remedy against the violation of IP rights and courts often grant injunctions to prevent the violation of standard-essential patents. Injunctions require an *eBay*-like analysis; but the absence of punitive or enhanced damages, together with the length of proceedings, tips the balance of hardships in favour of patentees. Implementers usually deny infringement and submit FRAND defences only after the confirmation of injunctions before the appellate courts. Courts are signalling that FRAND defences will not be persuasive unless the implementer brings evidence of willingness to negotiate a licence in good faith before filing of the infringement complaint (eg, see Case 2015.51.01.037510-8, *ZTE v Vringo*, 13th Chamber of the Rio de Janeiro Federal Trial Court (May 11 2015)).

India

In India, contrary to the perception of the country being a difficult jurisdiction for the enforcement of patents, standard-essential patent holders have made better headway. In cases involving standard-essential patents, the Indian courts have done as follows:

- They have initially granted orders allowing the patentee to object to imports



David L Cohen
Chief legal and IP officer
dcohen@vringoinc.com

David L Cohen is the chief legal and IP officer at Vringo Inc. Before Vringo, he was senior litigation counsel at Nokia; he has also worked in private practice at Lerner David and Skadden Arps.

Mr Cohen earned a BA and MA from the Johns Hopkins University, an M Phil from Cambridge University, an MA (with distinction) from University College London and a JD (*cum laude*) from Northwestern University School of Law, where he was an associate editor of the *Law Review*. Mr Cohen received the Sara Norton Prize from Cambridge University and first prize in the Lowden-Wigmore Prizes for Legal Scholarship from Northwestern. He also clerked for Chief Judge Gregory W Carman.

of infringing products under the Imported Goods IP Enforcement Rules.

- In cases where such orders have been passed, most defendants have agreed either to deposit royalties either with the court or with the patentee, in order to be allowed to do business.
- The maintenance and furnishing of accounts are made compulsory in most standard-essential patent cases.
- The furnishing of bank guarantees for sums equivalent to the royalty payable has been directed.

Patent holders have thus been able to obtain some monetary relief even at the interlocutory stage. This is seen by courts as a method of balancing patentees’ rights and defendants’ business. However, India is grappling with the issues raised by the interface of intellectual property and

competition. Competition law is being used by most users of standard-essential patents to drive better bargains from patentees and the situation in India is no different. It remains to be seen as to how the standard-essential patent landscape will operate in India but, at this stage, it would not be wrong to state that it holds sufficient promise for standard-essential patent holders to consider it as a serious jurisdiction in which to file patents.

Keys to successful enforcement

Manufacturers understand that protection for standard-essential patents is not robust and are taking advantage. Although regulators such as the Federal Trade Commission clearly contemplate courts determining FRAND royalties, manufacturers often fight patent holders' efforts to set such rates, arguing that the claims are immature because they would not result in a signed licence agreement, or that a court cannot set a FRAND rate for an entire portfolio because the portfolio may contain at least one invalid patent. If upheld by the courts, such arguments would require patent holders to litigate each and every patent in their portfolios in order to obtain FRAND compensation rather than entering into a portfolio licence. These tactics serve to further delay the determination of FRAND licence terms and increase the expense of litigation, while manufacturers continue to make use of patented technology without compensation.

Faced with this scenario and various tactics on the part of standard implementers seeking to reduce royalties by forcing patent holders to litigate, standard-essential patent owners must work out how best to enforce their patents in order to ensure that they are adequately compensated for the use of their intellectual property. First, standard-essential patent owners should think carefully about where to enforce. Litigating in jurisdictions that are more amenable to the idea of injunctive relief in the standard-essential patent context can help to level the playing field by forcing standard implementers to bear some of the risks of patent litigation. Second, before seeking injunctive or exclusionary

relief, standard-essential patent holders should ensure that they comply with the applicable rules concerning the licensing of standard-essential patents in order to avoid unnecessary litigation expense and potential regulatory inquiry. Significantly, before seeking injunctive relief, a standard-essential patent holder should make at least one licence offer on FRAND terms. Standard-essential patent holders should also offer to arbitrate the terms of a FRAND licence with the infringer and should allow time for a response to this offer before seeking injunctive relief. Finally, standard-essential patent holders should be able to clearly articulate why their licence offers are FRAND to show that they have negotiated in good faith.

Comment

The standard-essential patent enforcement landscape is hostile at present. Standard implementers are taking advantage of the difficulty in obtaining injunctive relief to pressure standard-essential patent owners to accept licences at sub-optimal rates or face years of patent litigation in multiple forums, risking adverse findings concerning the patents in the process. By utilising forums that are more willing to curb patent hold-up and by complying carefully with regulatory schemes in countries such as the United States before seeking injunctive relief, standard-essential patent holders can maximise their ability to obtain fair compensation for their IP rights. *iam*

VRINGO

Vringo, Inc
780 Third Avenue, 12th floor
New York NY 10017
United States
Tel +1 212 309 7549
Web www.vringoip.com