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Enforcement Trends To Watch After SEP Remedies Withdrawal

By **Alexander Okuliar and John Lanham** (June 21, 2022, 5:47 PM EDT)

In the world of federal patent enforcement policy, it seems that what was old is now new again. Or is it?

Alexander Okuliar

John Lanham

For over a decade, U.S. government enforcement policy on standard-essential patent remedies has swung between discouraging injunctions on infringing products to supporting injunctions in the ordinary course. And while it seems the Biden administration may be swinging back, its recent actions have sent mixed signals.

A December 2021 draft released by the U.S. Department of Justice, the U.S. Patent and Trademark Office and the National Institute of Standards and Technology signaled that policy was shifting again toward skepticism of SEP injunctions. Instead, on June 8, those agencies announced that the new official policy would be no policy at all, and withdrew the existing 2019 policy while expressly not reinstating its 2013 predecessor.[1]

The DOJ will instead conduct a case-by-case review of SEP holders and standards implementers' behavior for anti-competitive conduct.

This latest development reflects the ongoing tension present at the intersection of exclusive rights, industry cooperation and antitrust law. SEPs typically are subject to a commitment from the patent holder to the standards development organization to license the patent to implementers on fair, reasonable and nondiscriminatory, or FRAND, terms.

At the same time, implementers cannot design around a true SEP while also practicing the industry standard. Trouble arises, therefore, when negotiations between a patent holder and an implementer break down. These breakdowns are generally characterized as:

- Patent holdup — in which an SEP holder seeks to extract license terms higher than FRAND; and
- Implementer holdout — in which an implementer seeks to obtain license terms lower than FRAND.

Net licensors tend to dispute the existence of holdup as a concept subject to antitrust remedies whereas net licensees often characterize holdout as an unrealistic policy concern.

Obama administration policy focused on the potential for competitive harm arising from patent holdup. A 2011 Federal Trade Commission report supported application of the ordinary common law injunction test to SEPs, while at the same time observing that "the threat of an injunction can lead an infringer to pay higher royalties than the patentee could have obtained in a competitive technology market," which can be "particularly acute" in the standard-setting context.[2]

In 2013, the DOJ and USPTO went a step further and issued the policy statement on remedies for standard-essential patents subject to voluntary FRAND commitments.[3]

The 2013 policy statement took the position that an injunction or ITC exclusion order could be relevant in "some circumstances" but emphasized the potential for public harm where a patent holder uses the threat of an injunction to pressure an implementer into accepting onerous licensing terms.[4]

Under the Trump administration, attention shifted to potential harms to innovators stemming from implementer hold-outs. The DOJ adopted a "New Madison" enforcement approach that took the position that holdup is fundamentally not an antitrust problem and licensing disputes involving SEPs should be resolved under the contract or patent laws.

The DOJ and USPTO withdrew the 2013 statement and the DOJ, USPTO and NIST issued a new policy statement in 2019, noting that the earlier policy "has been misinterpreted to suggest that a unique set of legal rules should be applied" to SEP remedies.[5] The agencies clarified that injunction and exclusion are equally available for SEPs, while individual circumstances of licensing negotiations must still be considered.[6]

In December 2021, in response to Biden's executive order calling for reconsideration of the 2019 policy statement,[7] the DOJ, USPTO and NIST issued a draft policy statement revising their prior positions.[8] The 2021 draft acknowledged both holdup and hold-out risks and outlined a process for good-faith negotiations.

But the draft went on to note that, while the traditional common law analysis should continue to apply to SEP injunctions, those factors "generally militate against an injunction" in the presence of a FRAND commitment.[9] This draft prompted 167 comment submissions from former officials, industry and individuals,[10] ranging from criticism that the policy went too far by impairing an important patent holder negotiation tool, or failed to go far enough by not prohibiting injunctions entirely.

Rather than adopt or modify the 2021 policy statement, the agencies have decided to forgo an official policy on FRAND-committed SEP remedies. The press release announcing the withdrawal noted that the three agencies believe this step will help U.S. companies, including small- to medium-sized businesses, to better "engage and influence international standards."

The DOJ announced that it would review conduct by SEP holders or standards implementers "on a case-by-case basis to determine if either party is engaging in practices that result in the anti-competitive use of market power or other abusive processes that harm competition."[11]

Where does this policy withdrawal leave patent holders and implementers? Is it a signal that the agencies want to be more hands-off, or merely a détente between groups with differing views on enforcement? And where should companies look for guidance? We anticipate several key issues that patent holders and implementers will need to consider in light of this new case-by-case enforcement stance.

First, the government's increased focus on unilateral conduct, including patent holdup as a potential antitrust issue, will be tempered by recent U.S. court decisions extending greater negotiating latitude to SEP holders and characterizing FRAND disputes as primarily contractual in nature.

As a result, expect the DOJ to invest its enforcement resources initially on the most egregious cases — those that deviate markedly from the "good-faith negotiations" process floated in the U.S. agencies' December 2021 draft policy statement and that involve businesses with significant market power negotiating with smaller businesses, particularly in areas of emerging technology.

The DOJ is also likely to continue augmenting its enforcement activity by weighing in on cases of interest as an amicus and thereby expounding on and clarifying its enforcement policies.

Second, the paucity of clear U.S. case law defining good-faith negotiations in the SEP context means that U.S. enforcers may look beyond the U.S. to inform their enforcement priorities. This could include what the agencies consider proper notice of infringement by the SEP holder, a good-faith FRAND offer, and whether an implementer is a willing licensee.

The case law on these issues is more robust and cohesive in Europe, with courts there largely following and fleshing out the practical negotiating steps highlighted in cases like the Court of Justice of the European Union's 2015 decision in Huawei v. ZTE[12] or the U.K. Supreme Court's decision in Unwired Planet. Echoes of those decisions can be seen in the U.S. agencies' 2021 draft policy statement.

Third, agencies and courts likely will look closely at allegations of deceptive or misleading conduct during the standards-setting process. On this issue, DOJ Economics Director of Enforcement Jeffrey Wilder noted in a fall 2021 speech citing to Broadcom and Rambus that "a plaintiff could establish an antitrust violation by showing that an SEP holder used deception and lured an SDO away from adopting an alternative technology."[13]

While he acknowledged that the SEP holder might be able to show that "'no suitable alternative technology was realistically available'"[14] it stands to reason that allegations of intentionally false promises to an SDO to license on FRAND terms will draw particular scrutiny.

Fourth, agencies may take a more aggressive enforcement stance for improper licensing activity by nonpracticing entities. The DOJ has gone out of its way to note that it will focus its enforcement on "'abusive practices that disproportionately affect small and medium sized businesses'"[15] and some have argued that even the Unwired Planet court, despite giving wide berth to SEP holders and taking the view that nonpracticing entities should generally be treated like other patent owners, may have left open a defense of disproportionality against nonpracticing entities in some circumstances.[16]

Paraphrasing the concurrence, the U.K court wrote "where the patented invention was only a small component of the product the defendant sought to produce, and the threat of an injunction was employed simply for undue leverage in negotiations, damages might well be sufficient to compensate for the infringement, and an injunction might not serve the public interest."[17]

Fifth, we anticipate seeing less traditional approaches to enforcement against nonpracticing entities, including under the consumer protection laws, similar to the FTC's 2014 case against MPHJ Technology Investments. The FTC alleged that MPHJ had engaged in deceptive practices when it sent thousands of letters to small businesses with false statements regarding substantial licensing activity and hollow threats about taking legal action.[18]

This action resulted in a consent decree against MPHJ. Indeed, last October, FTC Commissioner Rebecca Slaughter remarked that the agency should continue its Section 5 — unfair and deceptive practices — enforcement against SEP-related activities, with an emphasis on conduct outside the current scope of Section 2 of the Sherman Act.[19]

Slaughter went on to note that an SEP holder seeking exclusionary relief against a willing licensee is "highly problematic" and "conduct that may violate Section 5 could include an SEP holder's refusal to license a SEP to any willing licensee in violation of a FRAND commitment or conditioning a SEP license on taking or giving a cross license to patents that are not essential to the standard or are SEPs from unrelated standards."[20]

Of course, private litigation for breach of contractual FRAND commitments also remains available, as the agencies' press release on withdrawal of the 2019 policy statement is careful to note.[21]

Finally, despite the Biden administration's skepticism of holdout, the DOJ has made a point that it intends to protect against unlawful collective action.

Wilder also observed in his recent speech that "firms could hijack the standard-setting process to exclude competing technologies from consideration — not on the basis of merit, but simply because it furthers their commercial interests. Or firms could adopt standards with the express intent of excluding rivals from another market in which they compete."[22]

Such agency investigation into potential collusion would continue an enforcement priority that has cut across administrations and at times resulted in meaningful improvements to the structure, policies and functions of SDOs.

For example, the Trump DOJ issued a business review letter to the GSM Association in 2019 that gave important clarifications about the GSMA's prior standard-setting processes that had led to concerns about potential collective action problems.

Following the business review letter, the association changed its internal policies for proposing and adopting standards and helped level the playing field for smaller players participating in the association.[23]

If similar initiatives on collective action issues are pursued by the Biden administration, the additional clarity for SDO processes would likely be the most durable and efficiency-enhancing of the federal government's activities.

Alexander Okuliar is co-chair of the global antitrust law practice group at Morrison & Foerster LLP. He served as deputy assistant attorney general for civil enforcement in the DOJ Antitrust Division from 2020 to 2021.

John Lanham is a partner at the firm.

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[1] https://www.uspto.gov/sites/default/files/documents/SEP2019-Withdrawal.pdf.

[2] https://www.ftc.gov/sites/default/files/documents/reports/evolving-ip-marketplace-aligning-patent-notice-and-remedies-competition-report-federal-trade/110307patentreport.pdf at 5, 28.

[3] https://www.justice.gov/atr/page/file/1118381/download.

[4] Id. at 6.

[5] https://www.uspto.gov/sites/default/files/documents/SEP%20policy%20statement%20signed.pdf at 4.

[6] Id. at 5, 7.

[7] https://www.whitehouse.gov/briefing-room/presidential-actions/2021/07/09/executive-order-on-promoting-competition-in-the-american-economy/.

[8] https://www.justice.gov/atr/page/file/1453471/download.

[9] Id. at 9.

[10] https://www.regulations.gov/docket/ATR-2021-0001/comments.

[11] https://www.justice.gov/opa/pr/justice-department-us-patent-and-trademark-office-and-national-institute-standards-and.

[12] Case C-170/13, Huawei Techs. Co. Ltd. v. ZTE Corp., ECLI:EU:C:2015:477 (July 16, 2015).

[13] https://www.justice.gov/opa/speech/antitrust-division-economics-director-enforcement-jeffrey-wilder-iam-and-gcr-connect-sep.

[14] Id. (quoting Phillip E. Areeda & Herbert Hovenkamp, Antitrust Law ¶ 712 (4th ed. Aug. 2019)).

[15] https://www.justice.gov/opa/pr/justice-department-us-patent-and-trademark-office-and-national-institute-standards-and.

[16] Unwired Planet Int'l Ltd. v. Huawei Techs. (UK) Co. Ltd., [2020] UKSC 37, ¶ 89 (Aug. 26, 2020), https://www.supremecourt.uk/cases/docs/uksc-2018-0214-judgment.pdf.

[17] Id. ¶ 161.

[18] https://www.ftc.gov/system/files/documents/cases/141106mphjcmpt.pdf.

[19] https://www.ftc.gov/system/files/documents/public_statements/1598103/commissioner_slaughter_ansi_102921_final_to_pdf.pdf at 2.

[20] Id. at 6.

[21] https://www.justice.gov/opa/pr/justice-department-us-patent-and-trademark-office-and-national-institute-standards-and ("The specific F/RAND commitments are contractual obligations that vary by SDO. U.S. laws and regulations govern the interpretation of those contractual obligations and otherwise govern the conduct of parties participating in SDOs.").

[22] https://www.justice.gov/opa/speech/antitrust-division-economics-director-enforcement-jeffrey-wilder-iam-and-gcr-connect-sep.

[23] https://www.justice.gov/atr/page/file/1221321/download.