



CPI Antitrust Chronicle

April 2012 (2)

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Hill Wellford
Bingham McCutchen

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I. INTRODUCTION

Government officials, academics, and some industry participants recently have suggested² that holders of so-called “standards-essential patents” (“SEPs”), meaning patents that are technically essential to the practice of technology standards, should be prohibited from seeking injunctive relief against products that infringe by implementing such standards. This prohibition would apply particularly with respect to patents that are subject to FRAND (fair, reasonable and non-discriminatory) licensing commitments and would apply in all situations, including defensive use and use during cross-licensing negotiations.

In my view, such a rule would be misguided. This no-injunction idea appears to spring from a serious misunderstanding of the nature of FRAND obligations, the likely long-term consequences of imposing additional burdens on innovators who participate in the standard-setting process, and the current state of technology markets. The misunderstanding appears to derive from five basic errors, which I hope to help correct by discussing each below.

II. ERROR #1: FRAND is a contract, not just a concept; adding a new “no injunctions” provision to that contract, without patentees’ consent, would be inconsistent with freedom of contract.

FRAND obligations often are described in academic settings as if they involve only a single set of promises and exist only as an undefined and unenforceable concept. No part of this description is correct. FRAND obligations are not mere concepts; instead, they generally reflect negotiated contractual agreements. Like any other type of contract, FRAND commitments cannot be discussed as if they all read or work the same way. The only way to understand FRAND commitments is to obtain each one, understand the meeting of the minds that it represents between its parties, determine who can enforce it under what conditions, and then read what obligations it actually contains.

¹ Hill Wellford is an antitrust partner in the Washington, DC office of Bingham McCutchen LLP.

² Government officials’ printed statements about this issue generally have been ambiguous; however, their oral statements often have been direct. For example, Fiona Scott-Morton, Deputy Assistant Attorney General for Economics at the U.S. Department of Justice Antitrust Division, voiced support for such a rule (although clarifying that her comments did not necessarily state official Department policy) when speaking on a panel entitled “Strategic Use of Patents for Competitive Advantage” at the American Bar Association’s Spring Meeting (March 29, 2012) in Washington, DC, and the written materials for the panel include the topic: “Does FRAND mean: No Injunctions?” (the materials are available from the ABA for purchase). *See also* comments of Joaquín Almunia, Vice President of the E.C. for Competition Policy, Competition Policy for Innovation and Growth: Keeping Markets Open and Efficient 6 (Mar. 8, 2012) (suggesting opposition to injunctions involving SEPs), *available at* <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/12/172&format=HTML&aged=0&language=EN&guiLanguage=en>.

FRAND commitments sometimes contain a no-injunction pledge but, if so, they do so as the result of a patent holder's voluntary commitment.³ Such a commitment is not the result of merely participating in the activities of a standard setting organization ("SSO"). Adding a new no-injunction pledge to a FRAND obligation by regulatory fiat, where it has not been accepted voluntarily, would be a departure from the law's usual respect for commercial agreements.

It is important to understand three points about the commercial trade-offs that FRAND commitments represent and the context in which they arise. *First*, the extent of FRAND commitments (and other conditions) to SSOs is part of a delicate balancing act in which SSOs seek to obtain the best technology and the greatest participation by innovators, on the one hand, while securing reasonable conditions for commercial implementation by licensee/manufacturers, on the other. If an SSO were to demand too-onerous conditions on innovators, innovators might not participate. And if innovators did not make patent assurances that were understood to be reasonable, licensee/manufacturers might not support the standard.⁴ Therefore, FRAND commitments are subjected to careful formulation and inspection, and a final set of FRAND commitments represents the end point of consideration by multiple parties—in economic terms, a commercial equilibrium – that should not be casually disregarded by a regulator.

Second, parties involved with FRAND obligations invariably are sophisticated commercial entities and repeat players: these are the SSOs themselves (who do not participate in the negotiation of license terms, but who do adopt rules and policies relating to FRAND commitments) and the large innovators, licensees, and manufacturers (many entities are all three, simultaneously) that make up the SSOs' memberships. Such entities are fully capable of understanding the issues surrounding FRAND and of reaching a commercial compromise that regulators should respect. Any view of these parties as needing help from regulators in order to understand the short- and long-term consequences of their agreements would be, at a minimum, presumptuous.

Third, the balancing nature of SSO-related patent disclosures⁵ and the contractual nature of FRAND obligations⁶ have been recognized by courts and regulators for some time. For

³ The Department of Justice recognized such a commitment in its recent closing statement regarding certain major patent acquisitions, in connection with which some parties had made voluntary no-injunction pledges, some of which did and some of which did not make exceptions for defensive use (or in the Department's phrase, "reciprocal use"). See U.S. Dept. of Justice, Statement of the Department of Justice's Antitrust Division on Its Decision to Close Its Investigations of Google Inc.'s Acquisition of Motorola Mobility Holdings Inc. and the Acquisitions of Certain Patents by Apple Inc., Microsoft Corp. and Research in Motion Ltd. (Feb. 13, 2012), available at <http://www.justice.gov/opa/pr/2012/February/12-at-210.html>.

⁴ It is useful to remember that innovators have the incentive to make reasonable assurances even where SSOs do not demand this (as many do not). Where innovators stand to gain royalties from patents incorporated into a standard, the innovators have an incentive to grant terms that licensees consider to be favorable, including reasonable rates, because the innovators make money from fast, broad adoption of a successful standard, and lose money if patent uncertainty causes failure or delay.

⁵ See U.S. Dept. of Justice, *Business Review Letter to Michael A. Lindsay representing the Institute of Electrical and Electronics Engineers, Inc. (IEEE)* 9-11 (Apr. 30, 2007) (accepting the IEEE's patent-disclosure policy that gives innovators the option to disclose patents, specific terms, maximum licensing terms, or none of the above), available at <http://www.justice.gov/atr/public/busreview/222978.pdf>.

⁶ See Roger G. Brooks & Damien Geradin, *Interpreting and Enforcing the Voluntary FRAND Commitment*, 9 INT'L J. IT STANDARDS & STANDARDIZATION RES. 1 (2011) (collecting cases and commentary on "tak[ing] the

regulators suddenly to disregard that balancing, and those settled contractual expectations, would be a change of policy, and an unnecessary one, given that courts have proven capable of applying FRAND as a contract. And while it is true that a particular FRAND commitment may require interpretation as to what is “fair” or “reasonable” with respect to a particular licensee, this is by no means inevitable (it may not even be common—many prominent licensors’ FRAND commitments, including royalty rates, have been well-known and essentially unchanged for years), and when it occurs this hardly poses a novel problem for courts: interpreting contracts is a core skill of the judiciary.

III. ERROR #2: Injunctions on SEPs/FRAND patents—or any patents—are not awarded indiscriminately, and the “public interest” is already a factor in the analysis.

A key assumption behind the “no injunctions” argument as to SEPs seems to be that injunctions on FRAND-obligated patents are easy to get, the broader public interest is not considered, and there exists (now, or looming on the horizon) a tidal wave of SEP-related injunctions that could disrupt technology commerce and unfairly empower and enrich patentees. This assumption has no basis in fact. Empirically, I am aware of no study that indicates unusual seeking or obtaining of injunctions on SEPs. I am not even aware of anecdotes to this effect. I am aware only of a vague fear in some quarters that it *could* happen.

This kind of speculation is no basis for policy changes. As an example of how the market works in real life, the American Bar Association recently observed there are estimated to be about 200,000 patents that read on the average smartphone,⁷ yet even with that astounding number of potential points for litigation, instances of smartphones being blocked from market introduction are vanishingly rare. This suggests the current system works pretty well. Where is the proof that patent injunctions are awarded indiscriminately?

This assumption is further debunked by reference to patent law, which subjects injunction demands to rigorous proof. In the United States, for example, a patentee seeking an injunction must show that: (1) it has suffered irreparable injury; (2) damages alone are inadequate to compensate for that injury; (3) an injunction is warranted, after considering “the balance of hardships” between the plaintiff and defendant; and (4) “the public interest would not be disserved by the grant of an injunction.”⁸

FRAND obligation seriously as a contract”), *available at* http://www.cravath.com/files/Uploads/Documents/Publications/3285864_1.PDF.

⁷ Joint Comments of the American Bar Association’s Section of Antitrust Law, Section of International Law and Section of Intellectual Property Law on Commission Regulation on the Application of Article 81(3) of the EC Treaty to Categories of Technology Transfer Agreements and Commission Notice on Guidelines on the Application of Article 81 to Technology Transfer Agreements 19 (Feb. 13, 2012), *available at* http://www.americanbar.org/content/dam/aba/administrative/international_law/comments_joint_comments_ttber_sal_sil_sipl_final_2_12_12.authcheckdam.pdf (citing *The Android Patent War*, Wall Street Journal, Dec. 5, 2011, available at <http://online.wsj.com/article/SB10001424052970204826704577074523539966352.html>).

⁸ *eBay Inc. v. MercExchange LLC*, 547 U.S. 388, 391 (2006) (rejecting automatic permanent injunctions in patent cases).

The U.S. Supreme Court, in its 2006 *eBay Inc. v. MercExchange LLC* decision, explicitly rejected any application of formulaic rules for or against granting of patent injunctions,⁹ and studies since *eBay* have shown that injunctions are not automatic.¹⁰ Thus, a formulaic no-injunction rule in the SEPs/FRAND context is likely to be greeted with judicial skepticism, and patent law already provides a case-specific method for performing the balancing and public interest analyses that advocates of a no-injunction rule claim to seek.

IV. ERROR #3: Injunctions are crucial to cross-license negotiations; prohibiting them for SEPs will complicate negotiations and reduce patent value, harming innovation.

Advocates of a no-injunction rule for SEPs appear to think that it will reduce litigation threats in general and the use of injunctions in particular; however, neither point is necessarily correct or even likely. There is every reason to believe that a no-injunction rule would cause an imbalance of negotiating power that would lead to longer litigation, more injunction threats, and an erosion of patent value.

Under normal FRAND practice, the innovator and the infringer/licensee both have strong incentives to negotiate: the infringer does not wish to risk an injunction that could prevent or disrupt its manufacturing, and the innovator does not wish to appear unreasonable (which would doom it under the four-part injunction test, described above) or to subject its entire licensing system to a court judgment. In addition, the innovator would get no royalties from the infringer during any period in which an injunction is in force. Such matching incentives encourage negotiation, which is a good thing. It has long been recognized that, as a method of solving commercial disputes, negotiations are cheaper, faster, less error-prone, and otherwise more efficient than litigation. But if injunctions were barred, the infringer would have a reduced incentive to bargain. One result would be more and longer litigation, with all the inefficiency that litigation entails.

Another possible result is that injunctions could actually increase, due to loss of the threat of defensive injunctions. In the typical patent war, Company A threatens an injunction against Company B or its customers (an “offensive” use), and Company B responds by threatening a counterclaim or new lawsuit against Company A or its customers, demanding a similar injunction (a “defensive” use). Innovators who own SEPs and make FRAND commitments are generally careful to retain the right to make such defensive assertions because they are key to bringing the Company A’s of the world to the negotiating table, where such disputes generally are settled through broad cross-licenses that establish patent peace. A no-injunction rule would unilaterally disarm the owners of SEPs/FRAND-obligated patents. The Company A’s of the world would then be emboldened to seek more injunctions in court, with the end result that more products are blocked from consumers’ hands than is currently the case.

⁹ *Id.* at 392-93.

¹⁰ See *Post-eBay Injunctive Relief*, Patently-O, (Nov. 17, 2009), <http://www.patentlyo.com/patent/2009/11/post-eBay-injunctive-relief.html> (discussing the fact that by 2009, 28 percent of requests for permanent patent injunctions were denied, despite the patentee prevailing on the case on the merits; citing Ernest Grumbles et al., *The Three Year Anniversary of eBay v. MercExchange: A Statistical Analysis of Permanent Injunctions*, INTELLECTUAL PROPERTY TODAY, Nov. 2009 (behind a firewall)).

It should be obvious from this discussion that injunctions—whether offensive or defensive—have significant value. If injunctions were prohibited for a class of patents, value for that class of patents would be destroyed. A no-injunction rule would mean that the class of patents under discussion here—SEPs/FRAND-obligated patents—would be worth significantly less. This would be a bad result: if innovations become less valuable, then, at the margin, innovators will make fewer of them, and ultimately consumers will suffer.

V. ERROR #4: A policy that penalizes innovators who participate in SSOs, while rewarding innovators that do not, will cause innovators to participate less in SSOs and will diminish effective standardization.

Applying a no-injunction rule to SEPs/FRAND-obligated patents would create a perverse incentive: innovators who participate in SSOs would have fewer rights than innovators that do not participate. The result would be predictable and swift: fewer innovators would participate in SSOs. This likely would result in less clarity about patent-licensing terms in the SSO context, not more. It also would result in delay, worse technology choice, and other factors that would reduce efficiency. This would be a self-defeating policy.

Perhaps in recognition of this problem, a corollary argument has been suggested: apply the no-injunction rule to any patent that becomes essential to a technical standard, regardless of whether the innovator participated in the relevant SSO process or made a FRAND commitment. This solves the disparate-treatment problem but not the policy error. Such an approach would mean that the more critical the technology, the fewer rights its innovator would have. This is a recipe for reducing the incentive to make the necessary investments to invent, develop, and commercialize essential technology.

Here we see the ultimate problem with a no-injunction rule: in the name of increasing access to essential technology that already has been developed, it would risk—in fact, almost guaranty—retarding development of essential technology in the future. This is the classic regulatory error of seizing static, short-term gains at the expense of long-term harms to dynamic competition, an approach that has been recognized as “a calamity.”¹¹

VI. ERROR #5: There is no empirical evidence that would compel the elimination of injunctions for communications technology.

Finally, advocacy for a no-injunction rule appears to be motivated by an assumption that there is a serious patent-related inefficiency in technology markets, often with an emphasis on communications technology markets (smartphones and the like). Such an assumption is totally unsupported by empirical research. What data does exist suggests—admittedly, in an incomplete way—that technology markets in general and communications technology in particular are experiencing vigorous competition, including robust new innovation.

Seen from the perspective of consumers, communications technology shows very positive amounts of churn (incumbents giving way to new entrants), price waterfall (an expensive new

¹¹ Frank H. Easterbrook, *Ignorance and Antitrust*, in ANTITRUST, INNOVATION, AND COMPETITIVENESS 119, 122-23 (Thomas M. Jorde & David J. Teece eds., 1992) (“An antitrust policy that reduced prices by 5 percent today at the expense of reducing by 1 percent the annual rate at which innovation lowers the cost of production would be a calamity. In the long run a continuous rate of change, compounded, swamps static losses.”).

technology quickly becomes a cheap commodity), and consumer uptake (according to an August 2011 report by Gartner Research, sales of smart phones were up 74 percent year-on-year¹²).

And things also look good from the perspective of business. Both innovators and manufacturers are participating in SSOs, parties are negotiating license agreements, litigation has not exploded, FRAND is being taken seriously as a contract, and there otherwise is no obvious system failure. If one were asked to name an industry that features obvious monopoly harm such as stagnation, few new entrants, weak competition, and lack of consumer choice, one would not put communications technology at the top of the list. Yet, for some reason, that industry has drawn regulators' attention. Hopefully regulators' interest is due to something more than Willie Sutton's observation at work, "that's where the money is."¹³

When I have made this point, I have heard the retort that yes, competition looks good in communications technology and other technology markets, but how do we know that if a no-injunction rule (or any of a variety of other interventions) were imposed, competition wouldn't be even better? This always makes me think of a famous comic strip panel by Bill Watterson, author of the Calvin & Hobbes cartoon. A little girl, having been teased, wishes that she had a hundred friends to come to her defense. She then rolls her eyes and says, "And as long as I'm dreaming, I'd like a pony."¹⁴ This pony principle makes for a good comic strip but it is poor regulatory policy. Policy makers are better served by a cautious, evidence-based approach, and would do well to heed the words of U.S. Federal Trade Commission Chair Deborah Platt Majoras in 2006:

The market may not work perfectly all of the time or in every circumstance, but one should not compare results yielded by the market with some hypothetical "perfect" world that is the product of government regulation. Broad regulatory mandates that employ a "one size fits all" philosophy, without regard to specific facts, always have unintended consequences, some of which may be harmful and some of which may not be known until far in the future.¹⁵

VII. CONCLUSION

In sum, a "one size fits all" no-injunction rule for SEPs and FRAND-obligated patents would be misguided. If its advocates wish to consider it further, then at a minimum they should produce empirical support that suggests a need for such a rule—which again, they have not done—and should explain how they would deal with the obvious negative incentives that the rule would create for SSO participation and cross-licensing negotiations by innovators.

¹² Press Release, Gartner Inc., Gartner Says Sales of Mobile Devices in Second Quarter of 2011 Grew 16.5 Percent Year-on-Year; Smartphone Sales Grew 74 Percent (Aug. 11, 2011), *available at* <http://www.gartner.com/it/page.jsp?id=1764714>.

¹³ Willie Sutton was a famous bank robber in the 1930s, who famously was reputed—although perhaps incorrectly—to have responded thus when asked why he robbed banks have. *See* the biographical entry on Wikipedia at http://en.wikipedia.org/wiki/Willie_Sutton.

¹⁴ Bill Watterson, *Calvin & Hobbes* (panel published Jan. 13, 1987).

¹⁵ Deborah Platt Majoras, Chairman, Fed. Trade Comm'n, *The Federal Trade Commission in the Online World: Promoting Competition and Protecting Consumers*, Address at the Progress and Freedom Foundation's Aspen Summit at 2, 16-17 (Aug. 21, 2006), *available at* <http://www.ftc.gov/speeches/majoras/060821pffaspenfinal.pdf>.