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INJUNCTION IN ACCORDANCE WITH THE PRINCIPLES OF EQUITY AND PROPORTIONALITY

Introduction

In Europe, the Intellectual Property Rights Enforcement Directive (IPRED) requires that remedies for violation of intellectual property rights must always remain equitable and proportionate.¹ Other jurisdictions have similar requirements. This paper considers issues of equity and proportionality in the application of injunctive relief in the context of standard essential patents (SEPs).

In order to address the subject of equity and proportionality in relation to injunctive relief, it is appropriate to go back a few steps in time, and review why and how patent law was developed. The oldest patent law was enacted in Venice in 1474 and already contained many of the key principles embodied in modern European patent laws. That law stated that certain innovators reporting a new, innovative and feasible design to an authority would be given several years of protection against imitations. Other patent laws were drawn up (e.g. in France, England and Germany) over the following centuries.

The key purpose of these laws is to serve economic development and foster innovation, by providing a patent holder with the exclusive right to exploit the invention protected by its patent for a certain period of time in return for public disclosure of the invention. Publishing the invention allows others to build upon the technology, or alternatively incentivizes them to build a competing 'work-around' solution to the problem solved by the invention.

As part of its exclusive right, a patent holder may be able to exclude others from using the patented technology (by, for example, obtaining an injunction against infringing products) or alternatively exploit its patent right by licensing others (e.g., by claiming payment of a royalty for the use of the patent technology).

In line with the development of patent protection, Europe has also been at the fore-front of developing technology standards. Such standards are defined for a range of technologies to ensure that these technologies are implemented by multiple participants and are able to achieve the requisite market penetration, to the ultimate benefit of consumer choice. For instance, the communication technology of today owes a great deal to the active participation of numerous companies in voluntary, consensus-based standards development organizations that created widely adopted standards. Patents that are

¹ Directive on the Enforcement of Intellectual Property Rights (2004/48/EC), Article 3.

essential to implementing a standard in real world products are referred to as Standard Essential Patents (“SEPs”).

Just like patents, standards are tools for fostering innovation. But unlike patents - which can rely on exclusionary rights - standards foster innovation by making the same technology available for use by anyone wanting to implement the standard. This creates some tensions with patent law, such as:

- By “originally” exploiting a patent under the monopoly given by the exclusive right of the patent owner, it can differentiate its products from other products in the market. However, such differentiation is contrary to the basic intention of creating standards, the purpose of which is to foster wide adoption of the standardized technology (to enable, e.g., compatibility between products of different vendors). In this environment, differentiation between the vendors and their products takes place on top of the common standardized technology.
- While the original idea of the patent system is to give a monopoly to a single party (the patent owner), the commitment which given by holders of SEPs - namely to license these patents under Fair, Reasonable and Non-Discriminatory (FRAND) terms - aims to give access to all implementers of the standard.
- Under “original” patent monopoly, the economic need for third parties to design around a patent can generally lead to innovation, but designing around a SEP leads to fracturing of a standard whose success depends on consistent and widespread adoption.

Due to the fact that standards foster innovation by making underlying technologies available (and *not* because of the exclusionary nature of patents), injunctions for SEPs need to be considered carefully, in particular in terms of their effect on the overall innovation ecosystem. When considering whether an injunction for a SEP is or is not appropriate, a number of criteria should be taken into account in addition to those antitrust guidelines given e.g. for the EU by the Court of Justice of the European Union’s decision ZTE/Huawei (Case C-170/13). For example, in Europe the IPRED’s requirements of equity and proportionality must be addressed, as must similar requirements as may be applicable in other jurisdictions.

1. Injunction decisions should consider whether the patent holder brings to market products which implement the protected technology.

In the past few years, SEPs have been increasingly asserted before the courts against companies that use the protected technology in their products. In many of these cases, the SEP owners have sought injunctive relief against the producing companies.

One aim of patent laws can be to secure the sole marketing rights for the patent holder. Basically, injunctive relief provides the patent holder with an assurance that it can be the sole entity entitled to market and to generate profit with its products containing the protected technology. However, dynamics significantly change when the patent holder does not bring to market any products using the protected technology. In such scenarios, the patent holder’s monopoly right is not used to foster innovation or to bring innovative products to the market, but rather to maximise the financial benefit of the patent holder.

As such, patent holders that do not produce or market a competing implementation cannot justify using injunctions in order to protect their products. It should therefore be questioned what their real incentives are, since such holders of SEPs often use injunctive relief solely as leverage to demand inappropriately high licensing fees well in excess of what is FRAND. Since, by definition, a manufacturer of a standards-compliant implementation cannot circumvent the use of technology claimed in the SEP, the implementer can be held hostage to any unreasonable injunction-supported demand.

Patent holders that acquire SEPs but do not sell products implementing the standard can still play a role in helping compensate small inventors and companies for their innovative contributions, but care should be taken in granting injunctive relief to such entities as they do not suffer a competitive

disadvantage from the sale of products infringing the patent and hardly can claim to suffer irreparable harm from infringement of their patents. Alternative remedies available at law, such as monetary damages, will often be adequate and proportionate to compensate for any harm attendant to use of the technology.

2. Injunction decisions should consider the value of patent-protected technology in the product

A second key factor determining whether injunctive relief is appropriate involves considering the value of the patent-protected technology or innovation in the product as a whole on which the injunction is sought.

When the value of a product is closely associated with a single patented invention or a small number of patented inventions, the value affected by an injunction – namely the sales value of the product – is close to or identical with the value of the small number of patents that the product implements. In that situation, an injunction sought by the patent holder may be a proportionate remedy.

Such “single patent” circumstances were often the case when patent systems were first designed, when a single invention typically led to an entirely new product. Also today, some industry segments (e.g. pharmaceuticals) are still characterized by a paradigm of one or a handful of patents to one product. In that situation, an injunction may well be a proportionate remedy to patent infringement: the harm suffered by the infringer from an injunction should be proportionate to the harm suffered by the patent holder. Modern products however, are often completely different. Particularly in technology areas such as Information and Communication Technology (“ICT”) and Internet of Things (“IoT”), products are highly integrated and can use tens or hundreds of thousands of patents.

A smartphone is a good example of this fact, as it has been estimated that these devices contain technology claimed by ~250,000 patents (covering, for instance, connectivity technology such as 2G/3G/4G, Wi-Fi, Bluetooth, etc., touchscreen and control technology, position detection, navigation functionalities, media database management and much more). Communication functions, i.e. functions that enable the exchange of data, make up only a small portion of the innovations in a modern smartphone. The standardized technology 4G/LTE alone, is protected by thousands of Standard Essential Patents.

Another example of this clustering of multiple patented technologies in a single product is an automobile. Starting 2018, every new vehicle model in Europe will be required by law to have an integrated e-call function. Communications standards that use many SEPs apply to this functionality.

In the cases described above, injunctive relief for the use of any one single SEP may therefore prevent the sale of an entire smartphone or automobile, each of which contains thousands of other innovations. Allowing the holder of a single patent to threaten to remove third-party products from the market generally is not proportionate and does not serve innovation.

3. Injunction decisions should consider the public interest

When deciding on injunctive relief, apart from the interest of the patent holder, the impact on the general public should also be considered. More specifically, courts should consider the impact of an injunction on the customers of the alleged patent infringer, as well as the impact on jobs and the underlying ecosystem.

Granting injunctive relief for SEPs may result in manufacturers having to discontinue production or lay off employees because they are unable to pay excessive, non-FRAND royalties demanded by the SEP owner and cannot find any workaround to the SEP. It is likely that not just the producer would be affected by this, but their suppliers as well.

Communication technologies that are laden with many thousands of SEPs play a major role in everyday life today. They serve as a communication carrier for mobile telephony, the internet and connected services, not just for the acquisition of information, service functions and interconnectedness, but also for security-related and life-supporting functions. If, for instance, injunctive relief were granted against a network operator, their network would no longer be available for all these services – including security functions such as emergency call or rescue systems. Even if injunctive relief is limited to a certain period of time, the damage caused to the general population would be immeasurable.

In such cases, payment of pecuniary compensation instead of issuance of an injunction may be a more appropriate instrument. For example, although not expressly directed to SEPs, Article 12 of the IPRED provides for such a remedy where a person infringing IPR acted unintentionally and without negligence, if execution of the measures in question would cause him/her disproportionate harm and if pecuniary compensation to the injured party appears reasonably satisfactory².

As a further aspect, Germany's patent laws already provide for a mandatory licence, for instance. This is based on a sufficiently broad public interest in the availability of patented technologies.

Furthermore, patent infringement proceedings concerning SEPs for communication technologies demonstrate that there is room for extending and further developing the notion of public interest as a factor for consideration when deciding on requests for injunctive relief.

4. Injunction decisions on SEPs should consider the fact that the patent holder has voluntarily encumbered its SEP with a FRAND commitment.

A SEP holder that accepts to offer licenses under its SEP at FRAND terms voluntarily applies an encumbrance to its SEP. This SEP holder's decision renders such SEP different from other patents not subject to a FRAND encumbrance, i.e. the SEP holder has basically relinquished its right to exclude third party implementers of the relevant standard from practicing the FRAND encumbered SEP and instead has opted with formal commitment to license the SEP to the implementers. Accordingly, when applying the principles of equity, fairness and proportionality in injunction decisions, courts should consider if the affected patent is a FRAND-encumbered SEP. Therefore, in such situations, courts should have additional incentives to consider remedies alternative to injunctions, e.g. pecuniary compensation.

Summary

When deciding on the appropriateness of injunctive relief in respect of one or more SEPs, factors such as the market participation of the patent holder, proportionality, and the interests of the general public should be taken into consideration. Under these considerations, and especially when a SEP holder has voluntarily committed to license its patents under Fair, Reasonable and Non-Discriminatory terms, a ruling made in favour of damages or a licence as opposed to injunctive relief will often provide for a more proportionate remedy. In the interest of maximizing innovation, it would be highly desirable for lawmakers to take into consideration the particularities of SEPs and provide corresponding guidance.

Note: the positions and statements in this paper do not necessarily reflect the detailed individual corporate positions of each member.

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² E.g., Article 12 of the IPRED was introduced into the Danish Consolidate Patents Act dated January 28, 2009, Sect. 59. The German Copyright Act contains a paragraph (§ 100) which is similar to Art. 12 of the IPRED.