

**UNITED STATES DEPARTMENT OF JUSTICE AND
UNITED STATES PATENT & TRADEMARK OFFICE**

**POLICY STATEMENT ON REMEDIES FOR STANDARDS-ESSENTIAL PATENTS SUBJECT TO
VOLUNTARY F/RAND COMMITMENTS**

January 8, 2013

The U.S. Department of Justice, Antitrust Division (DOJ), and the U.S. Patent & Trademark Office (USPTO), an agency of the U.S. Department of Commerce, provide the following perspectives on a topic of significant interest to the patent and standards-setting communities: whether injunctive relief in judicial proceedings or exclusion orders in investigations under section 337 of the Tariff Act of 1930¹ are properly issued when a patent holder seeking such a remedy asserts standards-essential patents that are encumbered by a RAND or FRAND licensing commitment.²

The patent system promotes innovation and economic growth by providing incentives to inventors to apply their knowledge, take risks, and make investments in research and development and by publishing patents so that others can build on the disclosed knowledge with further innovations. These efforts, in turn, benefit society as a whole by disseminating knowledge and by providing new and valuable technologies,

¹ Although the focus of the present policy statement is on exclusion orders issued pursuant to 19 U.S.C. § 1337, similar principles apply to the granting of injunctive relief in U.S. federal courts, which is governed by the standards set forth by the U.S. Supreme Court in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006). The present policy statement is not, however, intended to be a complete legal analysis of injunctive relief under the *eBay* standard.

² For purposes of this statement, a patent is RAND- or FRAND-encumbered where a patent holder has voluntarily agreed to license the patent on reasonable and non-discriminatory (RAND) terms or fair, reasonable, and non-discriminatory (FRAND) terms while participating in standards-setting activities at a standards-developing organization (SDO). In the United States, SDO members may commit to license all of their patents that are essential to the SDO standard on RAND terms. In other jurisdictions, SDO members may commit to license such patents on FRAND terms. For the purposes of this letter, F/RAND refers to both types of licensing commitments. Commentators frequently use the terms interchangeably to denote the same substantive type of commitment.

lower prices, improved quality, and increased consumer choice.³ The DOJ and USPTO recognize that the right of a patent holder to exclude others from practicing patented inventions is fundamental to obtaining these benefits. It is incorporated into section 337 of the Tariff Act of 1930 itself, which forbids the unlawful “importation into the United States . . . of articles that . . . infringe a valid and enforceable United States patent.”⁴ As noted in the Administration’s 2010 Joint Strategic Plan on Intellectual Property Enforcement, “[s]trong enforcement of intellectual property rights is an essential part of the Administration’s efforts to promote innovation and ensure that the U.S. is a global leader in creative and innovative industries.”⁵ Accordingly, as historically has been the case, exclusion typically is the appropriate remedy when an imported good infringes a valid and enforceable U.S. patent.

Standards, and particularly voluntary consensus standards set by standards-developing organizations (SDOs), have come to play an increasingly important role in our economy.⁶ Voluntary consensus standards, i.e., agreements containing technical

³ See, e.g., OFFICE OF THE U.S. INTELLECTUAL PROP. ENFORCEMENT COORDINATOR, OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, 2010 JOINT STRATEGIC PLAN ON INTELLECTUAL PROP. ENFORCEMENT 3 (2010) [hereinafter 2010 JOINT STRATEGIC PLAN], http://www.whitehouse.gov/sites/default/files/omb/assets/intellectualproperty/intellectualproperty_strategic_plan.pdf. (“Enforcement of intellectual property rights is a critical and efficient tool we can use, as a government, to strengthen the economy, support jobs and promote exports. Intellectual property supports jobs across all industries, and in particular where there is a high degree of creativity, research and innovation.”).

⁴ 19 U.S.C. § 1337(a)(1)(B)(i) (2006).

⁵ 2010 JOINT STRATEGIC PLAN, *supra* note 3, at 4.

⁶ Congress and the Executive Branch have recognized the benefits of voluntary consensus standards. SDOs play an essential role in the development of such standards. See, e.g., National Technology Transfer and Advancement Act of 1995, Pub. L. No. 104-113 § 12(d), 110 Stat. 775, 783 (1996), 15 U.S.C. § 272 note (2006)); OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, OMB CIRCULAR A-119, FED. PARTICIPATION IN THE DEV. AND USE OF VOLUNTARY CONSENSUS STANDARDS AND IN CONFORMITY ASSESSMENT ACTIVITIES (1998), www.whitehouse.gov/omb/circulars_a119; see also Mem. from the Exec.

specifications or other criteria, are generally produced by private-sector organizations engaged in the development of standards.⁷

Voluntary consensus standards serve the public interest in a variety of ways, from helping protect public health and safety to promoting efficient resource allocation and production by facilitating interoperability among complementary products.⁸

Interoperability standards have paved the way for moving many important innovations into the marketplace, including the complex communications networks and sophisticated mobile computing devices that are hallmarks of the modern age. Indeed, voluntary consensus standards, whether mechanical, electrical, computer-related, or communications-related, have incorporated important technical advances that are

Office of the President on the Principles for Fed. Engagement in Standards Activities to Address Nat'l Priorities for the Heads of Exec. Dep'ts and Agencies (Jan. 17, 2012), http://www.whitehouse.gov/sites/default/files/omb/memoranda/2012/m-12-08_1.pdf.

⁷ Participation in their development is optional and the resulting standards are generally intended for voluntary use. U.S. Dep't of Commerce, Standards and Competitiveness: Coordinating for Results 5 (2004), <http://www.ita.doc.gov/td/standards/pdf%20files/Standards%20and%20Competitiveness.pdf>. In the United States alone, there are approximately 50,000 private-sector voluntary standards developed by more than 600 organizations. See *Overview of the U.S. Standardization System*, Am. Nat'l Standards Inst., http://www.standardsportal.org/usa_en/standards_system.aspx (last visited Dec. 7, 2012). The U.S. standards system is tremendously diverse, resulting in a system that is largely sectoral in focus. This is a logical approach because SDOs developing standards for use in each industrial sector, such as the information technology, telecommunications, automotive, medical devices, and building technology sectors, are most likely to understand that sector's needs and to know what standards best meet those needs. Many products, including those in the telecommunications sector, are based on multiple voluntary consensus standards developed by a number of different SDOs with different patent-licensing policies.

⁸ Due to the important role of F/RAND-licensed intellectual property in the standards process, we understand that the National Science and Technology Council Subcommittee on Standards, which includes broad representation from stakeholder agencies, plans to study this issue to explore any broader potential impacts of this, and other, related policies.

fundamental to the interoperability of many of the products on which consumers have come to rely.⁹

However, collaborative standards setting does not come without some risks. For example, when a standard incorporates patented technology owned by a participant in the standards-setting process, and the standard becomes established, it may be prohibitively difficult and expensive to switch to a different technology within the established standard or to a different standard entirely. As a result, the owner of that patented technology may gain market power and potentially take advantage of it by engaging in patent hold-up, which entails asserting the patent to exclude a competitor from a market or obtain a higher price for its use than would have been possible before the standard was set, when alternative technologies could have been chosen. This type of patent hold-up can cause other problems as well. For example, it may induce prospective implementers to postpone or avoid making commitments to a standardized technology or to make inefficient investments in developing and implementing a standard in an effort to protect themselves. Consumers of products implementing the standard could also be harmed to the extent that the hold-up generates unwarranted higher royalties and those royalties are passed on to consumers in the form of higher prices.¹⁰

⁹ See SUBCOMM. ON STANDARDS, NAT'L SCI. & TECH. COUNCIL, OFFICE OF SCI. & TECH. POLICY, EXEC. OFFICE OF THE PRESIDENT, FED. ENGAGEMENT IN STANDARDS ACTIVITIES TO ADDRESS NAT'L PRIORITIES: BACKGROUND AND PROPOSED POLICY RECOMMENDATIONS 1 (Oct. 10, 2011), http://standards.gov/upload/Federal_Engagement_in_Standards_Activities_October12_final.pdf.

¹⁰ See U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION 35-36 (2007), <http://www.justice.gov/atr/public/hearings/ip/222655.htm>.

In an effort to reduce the occurrences of opportunistic conduct in the adoption of voluntary consensus standards, while encouraging participants to include the best available technology in standards, some SDOs have relied on voluntary licensing commitments by their participants, including commitments to license the patents they own that are essential to the standard on F/RAND terms. SDOs and their members rely on these voluntary F/RAND commitments to facilitate the bilateral licensing negotiations necessary for successful widespread adoption of a standard and to provide assurances to implementers of the standard that the patented technologies will be available to parties seeking to license them.¹¹

In making such voluntary F/RAND licensing commitments, patent holders that also sell products and services related to the standard benefit from expanded marketing opportunities, and patent holders that focus on licensing their inventions benefit from an expanded source of revenues. These incentives encourage patent holders to contribute their best technology to the standardization process. F/RAND commitments may also contribute to increased follow-on innovation by allowing non-discriminatory access to networks both to new entrants and to established market participants to introduce new generations of network-operable devices.¹² In light of these and other potential benefits, the United States continues to encourage systems that support voluntary F/RAND licensing—both domestically and abroad—rather than the imposition of one-size-fits-all

¹¹ By participating in the standards-setting activities at the SDO and by voluntarily making a F/RAND licensing commitment under the SDO's policies, the patent holder may be implicitly acknowledging that money damages, rather than injunctive or exclusionary relief, is the appropriate remedy for infringement in certain circumstances, as discussed below.

¹² See Letter from Thomas O. Barnett, Assistant Att'y Gen., U.S. Dep't of Justice, to Robert A. Skitol, Esq. 7 (Oct. 30, 2006), <http://www.usdoj.gov/atr/public/busreview/219380.pdf>.

mandates for royalty-free or below-market licensing, which would undermine the effectiveness of the standardization process and incentives for innovation.

A patent owner's voluntary F/RAND commitments may also affect the appropriate choice of remedy for infringement of a valid and enforceable standards-essential patent. In some circumstances, the remedy of an injunction or exclusion order may be inconsistent with the public interest. This concern is particularly acute in cases where an exclusion order based on a F/RAND-encumbered patent appears to be incompatible with the terms of a patent holder's existing F/RAND licensing commitment to an SDO. A decision maker could conclude that the holder of a F/RAND-encumbered, standards-essential patent had attempted to use an exclusion order to pressure an implementer of a standard to accept more onerous licensing terms than the patent holder would be entitled to receive consistent with the F/RAND commitment—in essence concluding that the patent holder had sought to reclaim some of its enhanced market power over firms that relied on the assurance that F/RAND-encumbered patents included in the standard would be available on reasonable licensing terms under the SDO's policy.¹³ Such an order may harm competition and consumers by degrading one of the tools SDOs employ to mitigate the threat of such opportunistic actions by the holders of F/RAND-encumbered patents that are essential to their standards.

¹³ Moreover, this type of hold-up may be exacerbated when patents are sold or otherwise transferred by their owners. If F/RAND licensing obligations do not travel with a transferred patent, the potential for hold-up from the network effects of a standard may be substantially increased. For this reason, we believe that F/RAND commitments should bind subsequent patent transferees. *See* Renata B. Hesse, Deputy Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, Six "Small" Proposals for SDOs before Lunch: Remarks as Prepared for the ITU-T Patent Roundtable (Oct. 10, 2012), <http://www.justice.gov/atr/public/speeches/287855.pdf>.

This is not to say that consideration of the public interest factors set out in the statute would always counsel against the issuance of an exclusion order to address infringement of a F/RAND-encumbered, standards-essential patent. An exclusion order may still be an appropriate remedy in some circumstances, such as where the putative licensee is unable or refuses to take a F/RAND license and is acting outside the scope of the patent holder's commitment to license on F/RAND terms.¹⁴ For example, if a putative licensee refuses to pay what has been determined to be a F/RAND royalty, or refuses to engage in a negotiation to determine F/RAND terms, an exclusion order could be appropriate. Such a refusal could take the form of a constructive refusal to negotiate, such as by insisting on terms clearly outside the bounds of what could reasonably be considered to be F/RAND terms in an attempt to evade the putative licensee's obligation to fairly compensate the patent holder.¹⁵ An exclusion order also could be appropriate if a putative licensee is not subject to the jurisdiction of a court that could award damages. This list is not an exhaustive one. Rather, it identifies relevant factors when determining whether public interest considerations should prevent the issuance of an exclusion order

¹⁴ As courts have found, when a holder of a standards-essential patent makes a commitment to an SDO to license such patents on F/RAND terms, it does so for the intended benefit of members of the SDO and third parties implementing the standard. These putative licensees are beneficiaries with rights to sue for breach of that commitment. *See Microsoft Corp. v. Motorola, Inc.*, 864 F. Supp. 2d 1023, 1030-33 (W.D. Wash. 2012); *Microsoft Corp. v. Motorola, Inc.*, 854 F. Supp. 2d 993, 999-1001 (W.D. Wash. 2012); *see also Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 884 (9th Cir. 2012) (holding that the "district court's conclusions that Motorola's RAND declarations to the ITU created a contract enforceable by Microsoft as a third-party beneficiary (which Motorola concedes), and that this contract governs in some way what actions Motorola may take to enforce its ITU standard-essential patents (including the patents at issue in the German suit), were not legally erroneous"); *Apple, Inc. v. Motorola Mobility, Inc.*, --- F. Supp. 2d ---, No. 11-cv-178bbc, 2012 WL 3289835, at *21-22 (W.D. Wis. Aug. 10, 2012); *Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-cv-178bbc, 2011 WL 7324582, at *7-11 (W.D. Wis. June 10, 2011).

¹⁵ We recognize that the risk of a refusal to license decreases where the putative licensee perceives a cost associated with delay and increases where the putative licensee believes its worst-case outcome after litigation is to pay the same amount it would have paid earlier for a license.

based on infringement of a F/RAND-encumbered, standards-essential patent or when shaping such a remedy.

Voluntary consensus standards-setting activities benefit consumers and are in the public interest. Although we recommend caution in granting injunctions or exclusion orders based on infringement of voluntarily F/RAND-encumbered patents essential to a standard, DOJ and USPTO strongly support the protection of intellectual property rights and believe that a patent holder who makes such a F/RAND commitment should receive appropriate compensation that reflects the value of the technology contributed to the standard. It is important for innovators to continue to have incentives to participate in standards-setting activities and for technological breakthroughs in standardized technologies to be fairly rewarded. By providing these views on ways in which opportunistic conduct by patent holders and putative licensees may be mitigated, the DOJ and USPTO seek to ensure that there is greater certainty concerning the meaning of a F/RAND commitment so that incentives to participate in voluntary consensus standards-setting activities continue to be strong.

The DOJ is the executive-branch agency charged with protecting U.S. consumers by promoting and protecting competition. The USPTO, an agency of the Department of Commerce, is the executive-branch agency charged with responsibility for examining patent applications, issuing patents, and—through the Secretary of Commerce—advising the President on domestic and certain international issues of intellectual property policy.¹⁶ The DOJ and USPTO are concerned about the potential impact of exclusion

¹⁶ See 35 U.S.C. §§ 1, 2 (2006).

orders on “competitive conditions in the United States” and “United States consumers” in some cases involving F/RAND-encumbered patents that are essential to a standard, and the conditions under which they may be denied.¹⁷ Although, as described above, an exclusion order for infringement of F/RAND-encumbered patents essential to a standard may be appropriate in some circumstances, we believe that, depending on the facts of individual cases, the public interest may preclude the issuance of an exclusion order in cases where the infringer is acting within the scope of the patent holder’s F/RAND commitment and is able, and has not refused, to license on F/RAND terms.

The approach the U.S. International Trade Commission (USITC) adopts in cases involving voluntarily F/RAND-encumbered patents that are essential to a standard will be important to the continued vitality of the voluntary consensus standards-setting process and thus to competitive conditions and consumers in the United States. In an era where competition and consumer welfare thrive on interconnected, interoperable network platforms, the DOJ and USPTO¹⁸ urge the USITC to consider whether a patent holder has acknowledged voluntarily through a commitment to license its patents on F/RAND terms that money damages, rather than injunctive or exclusionary relief, is the appropriate remedy for infringement.

The USITC has a mandate to consider the “effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the

¹⁷ 19 U.S.C. § 1337(d)(1) (2006).

¹⁸ *See* 19 U.S.C. § 1337(b)(2) (2006) (directing the USITC to consult with the Department of Justice and “other departments and agencies as it considers appropriate”).

production of like or directly competitive articles in the United States, and United States consumers.”¹⁹ As the USITC has observed, these public interest factors ““are not meant to be given mere lip service,” but rather ““public health and welfare and the assurance of competitive conditions in the United States economy must be the overriding considerations in the administration of this statute.””²⁰

The USITC may conclude, after applying its public interest factors, that exclusion orders are inappropriate in the circumstances described in more detail above.

Alternatively, it may be appropriate for the USITC, as it has done for other reasons in the past, to delay the effective date of an exclusion order for a limited period of time to provide parties the opportunity to conclude a F/RAND license.

Finally, determinations on the appropriate remedy in cases involving F/RAND-encumbered, standards-essential patents should be made against the backdrop of promoting both appropriate compensation to patent holders and strong incentives for innovators to participate in standards-setting activities.

¹⁹ 19 U.S.C. § 1337(d)(1).

²⁰ *Certain Inclined Field Acceleration Tubes & Components Thereof*, Inv. No. 337-TA-67, USITC Pub. 1119, Comm’n Op., at 22 (Dec. 1980) (emphasis in original) (quoting S. REP. 93-1298, at 197 (1974), reprinted in 1974 U.S.C.C.A.N. 7186, 7330).