LOS ANGELES & SAN FRANCISCO
Daily Journal
www.dailyjournal.com
WEDNESDAY, MARCH 18, 2020

TOP INTELLECTUAL PROPERTY LAWYERS

IP issues with emerging automotive and mobility tech

By Brent A. Hawkins and James J. Kritsas

When you unpack a connected vehicle, you will find an astonishing convergence of technologies. This technological convergence, taken in concert with the existing time-battled complexities of the automotive supply chains, has created a combustible concoction of intellectual property and licensing issues. These issues are foreign to the automotive ecosystem and its traditional mode of operation. But they are poised to unsettle the industry in 2020 and well beyond.

Intellectual property issues will dominate the autonomous and connected vehicle landscape, particularly those relating to standard-essential patents, or SEPs — patents essential to practice a technology. Owners of wireless communication patents are increasingly seeking to expand their SEP licensing strategies — once previously confined to the telecommunications industry — into the automotive industry. This licensing activity has raised competition, contractual, and constitutional questions about SEPs.

STANDARD ESSENTIAL PATENTS

SEPs cover patented technologies that are deemed essential to an industry standard, such as, for example, the IEEE 802.11, 4G, LTE and 5G wireless standards. An implementer of a standard-compliant device generally integrates into its products some or all of the proprietary technology alleged to be covered by SEPs relevant to that particular industry standard. An SEP owner consequently may achieve dominant market power if a standard becomes widely adopted — market power that, in many cases, would not exist but for the adoption of the patented technology by the standard. This may create an opportunity for the SEP owner to demand disproportionate licensing terms for, or refuse to license, the technology to the detriment of the public interest. This economic phenomena is generally known as “hold up.” In order to address this potential problem, standard-setting organizations, or SSOs, generally require that SEP owners whose patents are mandatory to the standard agree to license their patents to implementers of the standard on fair, reasonable and nondiscriminatory, aka FRAND, terms.

SEPs that are subject to a FRAND commitment are deemed to be FRAND-encumbered. However, the legal ramifications of a FRAND commitment differ by SSOs (each of which may set the terms of its participants’ commitment) and jurisdiction (each of which interprets each FRAND commitment according to local rules of contract). The confusion is compounded by the fact that the parties seeking to enforce FRAND commitments are usually third parties (e.g., implementers of devices that use the standard) who were not themselves part of negotiating the FRAND agreements (which are between the SSO and the SEP owner). Therefore, SEP enforcement and licensing efforts often implicate

Intellectual property issues will dominate the autonomous and connected-vehicle landscape, particularly those relating to standard-essential patents, or SEPs — patents essential to practice a technology. Owners of wireless communication patents are increasingly seeking to expand their SEP licensing strategies — once previously confined to the telecommunications industry — into the automotive industry.

global interests that generate pervasive claims of market power abuses atypical of patents not deemed to be standard essential.

ENFORCEMENT OF SEPS

SEPs have garnered intense scrutiny and conflicting positions from various arms of the U.S. and international governmental communities. For years, the U.S. International Trade Commission has shown a reluctant willingness to issue exclusion orders based on SEPs, but its authority to do so has often been in question. In 2013, the ITC issued an exclusion order against Apple Inc. based on SEPs owned by Samsung Electronics Co. Ltd. The ITC determined that, despite Samsung’s obligations to license on terms that are FRAND, the ITC had authority to issue an exclusionary order against Apple. That decision led the U.S. trade representative of the Obama administration to overturn an ITC exclusion order for the first time in 27 years. The trade representative noted that the owner of SEPs may not be entitled to seek exclusionary remedies where they were unwilling to satisfy their FRAND obligations.

Chief among the U.S. trade representative’s justification for vetoing the injunctive relief was a 2013 Joint Policy Statement authored by the U.S. Patent and Trademark Office, the U.S. Department of Justice, and the Federal Trade Commission that explored whether injunctive relief at the ITC could injure competition by allowing patentees to secure higher royalties than they would otherwise be able to under their obligation to license SEPs on FRAND terms. Observers viewed this veto as casting doubt as to whether injunctive relief is permissible, or practically obtainable, at the ITC.

Recently, however, the USPTO, DOJ and National

Institute of Standards and Technology withdrew support of the 2013 statement and, on Dec. 19, 2019, issued a new joint policy statement that makes clear that, when SEP negotiations fail, "appropriate remedies should be available to preserve competition, and incentives for innovation and for continued participation in voluntary, consensus-based standards-setting activities."

The new joint policy statement extinguishes any lasting effect of the 2013 Joint Policy Statement, declaring: "In the years since the 2013 policy statement issued, the USPTO, NIST, and the DOJ ... have heard concerns that the 2013 policy statement has been misinterpreted to suggest that a unique set of legal rules should be applied in disputes concerning patents subject to a F/ RAND commitment that are essential to standards (as distinct from patents that are not essential), and that injunctions and other exclusionary remedies should not be available in actions for infringement of standards- essential patents. Such an approach would be detrimental to a carefully balanced patent system, ultimately resulting in harm to innovation and dynamic competition."

The new statement concludes that "all remedies available under national law, including injunctive relief and adequate damages, should be available for infringement of standards-essential patents subject to a F/ RAND commitment," and that "a patent owner's promise to license a patent on F/RAND terms is not a bar to obtaining any particular remedy, including injunctive relief." In this way, the new statement articulates that, even if a patent is essential to an industry standard and subject to FRAND obligations, its owner can obtain injunctions against infringing implementers.

EUROPEAN ENFORCEMENT

Traditionally, in Europe injunctions have been available to holders of SEPs, and have been granted in, for example, France, Belgium, the Netherlands, and Germany. In 2015, the European Court of Justice issued judgment in *Huawei v. ZTE*, which outlined an antitrust law framework for enforcement of SEPs in Europe. In particular, the court prescribed an explicit set of negotiating obligations to be followed, and provided guidelines on the circumstances in which injunctive review is available. Since the *Huawei* decision, Europe has been a seemingly preferred venue in which to bring SEP disputes. This is not surprising given the explicit guidance provided by the ECJ in *Huawei* when viewed against what seemed to be an inability to obtain injunctive relief in the United States.

While the guidance from *Huawei* increased the number of SEP cases in Europe, recent patent cases in the key European patent territories have demonstrated that the guidance did not resolve all relevant issues. There is disagreement on several points of detail among the courts in the jurisdictions of Germany, the Netherlands, and the United Kingdom. For example, the German courts diverge from the view taken by the Dutch Court of Appeal on the issue of timing. The German and Dutch courts have diametrically opposed views on an SEP holder's FRAND obligations — in particular, on the substantiation requirements of a FRAND offer. Appeals continue in Germany and the Netherlands on these issues, making European enforcement of SEPs more complex and difficult than may have been anticipated post-*Huawei*.

CONCLUSIONS AND ISSUES IN QUESTION

Given guidance from U.S. policy makers on the ITC's ability to issue injunctions on SEPs as well as the patchwork of guidance from courts in different European jurisdictions, some observers cautiously anticipate a shift in SEP enforcement efforts from Europe to the United States. For those in the automotive industry, a shift of enforcement to the United States still leaves many issues unresolved, including:

- Whether SEP owners should be free to choose at which level of the automotive supply chain they offer licenses for SEPs (e.g., finished product makers or manufacturers of components), or whether they are obligated to [issue/offer] licenses to any willing licensee regardless of the level of the supply chain in which the potential licensee is situated.
- Whether implementers upstream of automotive original equipment manufacturers that have not sought a license from an SEP holder have standing to bring an action against the SEP holder for failing to license its patents on FRAND terms.
- Whether SEP owners should be able to offer use-based licenses and charge different rates depending on the end use made of the SEP (even if technology covered by the SEP is the same) or whether the technology covered by the SEP fulfils exactly the same role in any standard-compliant product regardless of its end use because the function of the technology covered by the SEP is defined by the standard.
- Whether FRAND determinations of prospective royalty rates may be decided as a matter of law, or if those determinations are constitutionally mandated to be decided by a jury.
- Whether anti-lawsuit injunctions are an appropriate form of relief for a court to issue pending FRAND rate determinations.

Auto and technology innovators alike are following this issue closely and should be both aware of the current landscape and on alert of potential implications in the coming year. ■

BRENT HAWKINS *focuses his practice on intellectual property litigation, counseling, and procurement. He is a partner in Morgan Lewis's San Francisco office and co-leader of the firm's Automotive & Mobility industry team.*

JAMES KRITSAS'S *practice centers on patent infringement litigation involving a broad range of technologies. He is an associate in Morgan Lewis's Chicago office.*