

Biden Should Act Now To Finalize SEP Draft Policy Statement

By **Brian Scarpelli** (May 9, 2022, 6:25 PM EDT)

Success for countless American products and services that build on standards has been, and will be, driven by investment and ingenuity throughout the value chain.

A wide range of companies are innovators, but one particular group — a small group of companies that own and aggressively monetize standard-essential patents first used in telecommunications — have put great effort into claiming that title for themselves alone.

The members of this small collective claim that future innovation will be significantly threatened if they do not have the right to exclude products using SEPs from the market, even though they volunteered to commit to license their patents on fair, reasonable and nondiscriminatory, or FRAND, terms in exchange for having their technology included in a standard.



Brian Scarpelli

But this small handful of SEP licensor maximalists do not represent the American innovation economy. The companies that SEP licensors deride as mere implementers create far greater economic value and innovation for the United States than the self-proclaimed innovators — and more recently originators — as data collected from recent submissions on SEP policy issues show.

Economic Activity Indicators	Support the 2021 Draft Policy Statement	Oppose the 2021 Draft Policy Statement
<i>Annual R&D Spend</i>	\$ 174 billion	\$ 8 billion
<i>Number of live U.S. patents granted</i>	223,000	31,000
<i>US employees</i>	2,112,000	40,000

Table 1: Economic contribution totals of signatories. R&D Spend, and Live U.S. Patent Grants are the based-on U.S. company signatories. U.S. jobs is based on all signatories.

In December 2021, the U.S. Department of Justice, U.S. Patent and Trademark Office and National Institute of Standards and Technology responded to President Joe Biden's call in a July 2021 executive order[1] to reevaluate a 2019 policy statement on remedies for SEPs issued by the Trump

administration, which had marked a significant departure from prior U.S. policy.[2]

The agencies issued a replacement draft policy statement recognizing that exclusionary relief for FRAND-committed SEPs should be reasonably limited and sought public comment on the policy.

More than 1,000 responses to the SEP consultation were submitted by the deadline on Feb. 4. Based on the published comments, a substantial majority of the submissions supported the proposed revisions.[3]

Importantly, the companies that support reasonable and appropriate limits on the use of SEP exclusionary relief are significant contributors to the domestic economy in terms of innovation and job creation.

By contrast, those opposing the revised policy are a small handful of companies that mostly depend on SEP licensing revenue, almost all of whom are foreign and make relatively limited contributions to the U.S. economy. The parties opposing the revised policy represent a comparatively minor amount of research and development investment and U.S. job creation.

These results vindicate the administration's decision to support reasonable limits on exclusionary relief for SEPs. They show the proposed policy is consistent with the administration's commitment to promote innovation and competition in the U.S. economy and help support U.S. jobs. The administration has the evidence and support to finalize and issue the revised policy statement now.

Context to the SEP Injunction Debates

In the U.S., patent injunctions are subject to equitable considerations. In U.S. district courts, it is well-established under the U.S. Supreme Court's 2006 decision in *eBay Inc. v. MercExchange LLC* that patent injunctions will not issue absent some showing that, for example, the patent owner would be irreparably harmed absent an order of market exclusion, and that monetary compensation to the patent owner would be insufficient.[4]

As such, injunctions may be restricted where a patent holder has a history of licensing its patents rather than competing in the relevant market; these types of licensing practices can provide strong evidence that the patent holder will not be irreparably harmed by a third party's use of its patents, and that monetary compensation is sufficient.

Where an SEP holder has prospectively promised to license its patents to any third party using the relevant standard on FRAND terms, it has willingly committed to accept money for the use of its patents. In assessing claims for SEP injunctions, the U.S. Court of Appeals for the Federal Circuit noted in its 2014 *Apple Inc. v. Motorola Inc.* that "a patentee subject to FRAND commitments may have difficulty establishing irreparable harm" such that an injunction often will be unavailable.[5]

At the U.S. International Trade Commission, which has the authority to exclude importation of infringing products, *eBay* is not applied. Instead, the commission may look at various public interest factors in assessing the availability of an injunction — an exclusion order in ITC parlance.

This difference with the U.S. district courts has prompted various SEP owners to seek exclusion orders in the ITC when they likely could not obtain similar relief in the district courts.

The draft policy statement correctly recognizes that

[o]pportunistic conduct by SEP holders to obtain, through the threat of exclusion, higher compensation for SEPs than they would have been able to negotiate prior to standardization, can deter investment in and delay introduction of standardized products, raise prices and ultimately harm consumers and small businesses.[6]

The reality is that SEP licensors are merely seeking to leverage the possibility of an exclusion order or injunction to extract non-FRAND licensing terms from companies that use standards in their products.

This practice not only violates their FRAND licensing commitments, but also harms actual innovation. Moreover, these tactics are unnecessary. The FRAND licensing commitment provides for SEP licensors to receive reasonable royalties for use of their valid and infringed patents and benefit from a significantly expanded market for their SEPs, a market that continues to expand with the success of the standard.

The U.S. government now is evaluating responses to its draft policy statement that addresses district court and ITC matters alike. This article analyzes the submissions received by the U.S. government in order to better understand and evaluate which stakeholders have taken views in favor of, or opposed to, reasonable limits on SEP exclusionary relief.

As discussed below, the responses received demonstrate a clear preference among mainstream industry stakeholders for a monetary — rather than exclusionary — approach to SEP disputes. It is only a small handful of companies, almost all of whom are foreign-headquartered, that have sought to support the use of SEP injunctions as a matter of U.S. policy.

What the Data Shows

All the publicly available submissions were reviewed and divided into three general categories:

- Companies that submitted their own response or directly signed onto a group response;
- Trade groups that provided submissions on behalf of their members; and
- Individuals, including academics, experts and members of the public.[7]

Almost 80 companies signed on to submissions supporting the administration's proposed policy. These companies represent a broad range of industries, include leading American automakers, cellular carriers, handset makers, infrastructure and cloud companies, broadcasters, chipmakers, and computer and hardware manufacturers.

By contrast, only 15 individual companies made submissions voicing support for broad SEP injunctions and thus opposed the proposed policy statement. Of those 15 companies, most are consultants, nonpracticing licensing entities, or foreign-owned companies. Only four are American companies with significant industrial or research operations.

The companies supporting the revisions play a significant role in American innovation. The R&D expenditures from U.S. companies directly supporting reasonable limits on exclusionary relief exceeds \$170 billion, dwarfing the \$8 billion spent on R&D by U.S. companies opposing them.

Likewise, comparing the number of patents held by those supporting versus those opposing the government's revised policy statement demonstrates that so-called innovators lag far behind the so-called mere implementers. Those U.S. companies supporting reasonable limitations on SEP exclusionary relief have been granted seven times more live U.S. patents than those who oppose the policy.

Supporters of the revised policy have been granted about 220,000 patents compared with about 30,000 patents by those that oppose it. Thus, despite claims by some that reasonable restrictions on exclusionary relief for SEPs will undermine innovation, the fact that the companies that expend substantial sums on R&D and are granted the most patents support the draft statement undermines this thesis.

The data reveal other ways in which supporters of reasonable limits on exclusionary relief for SEPs drive the U.S. economy and U.S. job creation.

For example, of the 2.2 million U.S. jobs created by companies that responded to the consultation, 97% were created by companies that support the agencies' reasonable restrictions on exclusionary relief for SEPs. Compared to the millions of employees working for those mainstream industry stakeholders, less than 3% work for the SEP injunction constituency. If we look at worldwide numbers, the outcomes are not much different. Only about 8% of all represented employees worldwide work for the SEP injunction constituency.

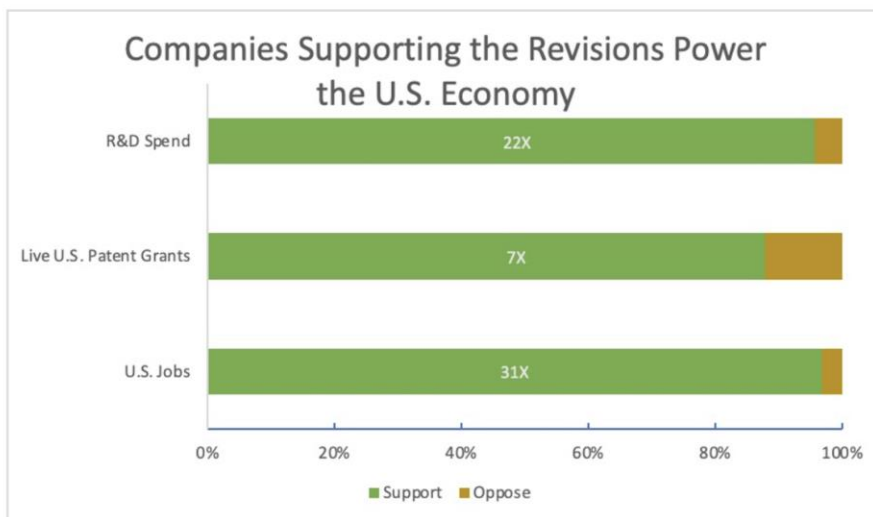


Figure 1: Economic contribution totals of signatories. R&D Spend, and Live U.S. Patent Grants are based-on U.S. company signatories. U.S. jobs are based on all signatories.

The trade group submissions further show that the industries driving innovation and creating American jobs support reasonable limitations on exclusionary relief. At least 850 members of trade groups support reasonable restrictions on exclusionary relief.[8]

This group includes, for example:

- Nearly all major carmakers;[9]
- All of the major automotive suppliers;[10]
- Most of the major American tech and computer companies;[11]

- Many of the major American software companies;[12] and
- A large number of American small and medium-sized entities.[13]

These groups also have members from many other sectors such as smart energy, broadcasting, semiconductor design, smart cities, smart agriculture and home appliances. On the pro-SEP-injunction side of the ledger, by contrast, there are about 40 corporate trade group members from the organizations that publicly disclose their membership.

The trade group submissions in favor of the administration's revised policy include the most innovative companies in the world.

Twenty-eight companies on Boston Consulting Group's 2021 list of the 50 most innovative companies[14] are represented in a submission either directly — 23 —or through a trade association — five — in supporting the draft policy's reasonable restrictions on SEP exclusionary relief.

Only one company on the BCG list opposed them. The total R&D spend of these 28 companies supporting the reasonable restrictions was more than \$280 billion per year. Last year's R&D spend of that sole company supporting broad injunctions was only about \$2.1 billion.

The R&D expenditure of U.S. companies either represented by trade associations or that have directly signed submissions in support of reasonable limits on exclusionary relief exceeds \$270 billion annually, dwarfing the \$15 billion annual R&D expenditure of U.S. companies opposing the change. To put this in context, \$270 billion is approximately half of the annual R&D expenditures by private companies in the U.S.[15]

Finally, of the more than 1,000 responses received, more than 800 came from individuals. Of these individual submissions, there are about 550 in favor of reasonable restrictions on SEP exclusionary relief, and only about 250 in favor of the broad availability of SEP injunctions. Other than numerosity, it is difficult to gauge the economic impact of these concerned individuals as economic data — such as patent grants — is not readily available or verifiable for all individuals.

Concluding Thoughts

The Biden administration has correctly recognized that even the threat of SEP exclusionary relief harms innovation and domestic industry. The proposed policy statement aimed at curtailing this harm has received broad support from companies at the forefront of American innovation that create American jobs.

Realizing the full potential of the internet of things similarly depends on addressing this harm. At minimum, the administration should act now to finalize the draft policy statement as released for public comment.

Brian Scarpelli is a senior global policy counsel at ACT | The App Association and member of Save Our Standards.

Disclosure: The author's organizations, ACT | The App Association and Save Our Standards, have submitted comments to the DOJ on the draft policy.

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[1] Public Comments Welcome on Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to F/RAND Commitments, Dec. 6, 2021, <https://www.justice.gov/opa/pr/public-comments-welcome-draft-policy-statement-licensing-negotiations-and-remedies-standards>.

[2] See Executive Order on Promoting Competition in the American Economy, July 9, 2021, <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/07/09/executive-order-on-promoting-competition-in-the-american-economy/>.

[3] The submissions are available for downloading on Regulations.org, <https://www.regulations.gov/document/ATR-2021-0001-0001> (last accessed March 30, 2021).

[4] eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388, 391 (2006) (for injunctive relief "a plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction").

[5] Apple Inc. v. Motorola, Inc., 757 F.3d 1286, 1331-32 (Fed. Cir. 2014) (RAND commitment may make it difficult for plaintiff to establish eBay factors such as irreparable harm).

[6] Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments at 4, Dec. 6, 2021, <https://www.justice.gov/opa/press-release/file/1453826/download>.

[7] In addition, several advocacy groups submitted comments supporting and opposing the proposed policy. Given the opacity of these groups motives and funding, they have been neglected from the analysis.

[8] Although the U.S. Chamber of Commerce submitted a comment in support of the revisions, it was excluded from the data set as its size makes it more difficult to impute its position onto all of its members and inclusion would overwhelm the data in terms of support. Additionally, while the group "Licensing Executive Society" submitted a comment opposing the Agencies proposed policies, LES membership is hidden so this study does not include its members.

[9] Via submission from the Alliance for Automotive Innovation ("AAI"), <https://www.autosinnovate.org>, and German Association of the Automotive Industry ("VDA"), <https://www.vda.de/en/Members>.

[10] Via submission from AAI, VDA, and the European Association of Automotive Suppliers, <https://clepa.eu/who-and-what-we-represent/members/>.

[11] Via the submissions from Computer Communications Industry Association, <https://www.cciinternet.org/about/members/>, High Tech Inventors Alliance <https://www.hightechinventors.com>, and the Fair Standards Alliance [https://fair-](https://fair-standards.org)

standards.org/members/.

[12] Via the Software Alliance, <https://www.bsa.org/membership>.

[13] Via the App Association, <https://actonline.org/members/>.

[14] BCG, Overcoming the Innovation Readiness Gap: Most Innovative Companies 2021 <https://www.bcg.com/en-us/publications/2021/most-innovative-companies-overview>.

[15] See Nat'l Sci. Found. & Nat'l Sci. Bd., The State of U.S. Science & Engineering 2022 (Jan. 18, 2022) <https://nces.nsf.gov/pubs/nsb20221/u-s-and-global-research-and-development#global-r-d>.