

## *New Global Patent Issues: SEPs War of the 21<sup>st</sup> Century*

### The Rational Basis for FRANDly Courts Denying Injunctive Relief for SEPs Infringement

Yogesh Pai†

National Law University, Sector-14, Dwarka, New Delhi 110 078

*Received 31 March 2014*

Increasingly, courts across several jurisdictions are unwilling to grant injunctions in cases involving infringement of Standards-Essential Patents (SEPs), the teleological reason being the unfair/inequitable outcomes due to the patentee gaining an additional market power not conveyed by the patent. The courts by evaluating the equitable factors deny injunctions based on an underlying logic that since a patentee is purely interested in deriving royalty on his patents committed by way of Fair-Reasonable and Non-Discriminatory (FRAND) licensing offers he may be compensated monetarily in lieu of an injunction. However, availability of adequate remedy at law coupled with lack of irreparable harm due to existence of FRAND commitment is not the only way to explain the rational basis for lack of injunctive relief when viewed through a theoretical and conceptual prism. This note chronicles the legal construct of patent injunctions from a comparative law perspective and articulates that the rational basis for denial of an injunction for alleged infringement of SEPs is due to patent law's inability to construe the 'right to exclude' and its relationship with SEPs protected market since it is fraught with conceptual and inherent definitional fallacies of assessment of 'market power' that go beyond the pale of patent law and policy.

**Keywords:** Standards-essential patents, SEPs, FRAND, injunction, right to exclude, patent markets, liability rule

#### **SEPs and Injunctions: A Primer**

*"And he that will not apply New Remedies, must expect New Evils: For Time is the greatest Innovator"*<sup>1</sup>

Time is the greatest innovator, indeed! But these are difficult times. The injunctive relief system underlying patent law's right to exclude developed during the heydays of patents being viewed as a sacrosanct property right is not keeping up with the times. The problem lies in scoping the actual nature of the right to exclude in the context of its remedial variant- injunctive relief. However, it has not always been so. Injunctive relief has historically been considered as the core of patent-property right but as a matter of equitable remedy that focused on factors like adequacy of compensatory remedy, irreparable harm, balance of convenience and public interest. Additionally, *prima-facie* case standard was supplementary factor in allowing temporary injunctive relief if the patentee was able to prove that he has a 'triable' case in the sense that it is serious and not vexatious.<sup>2</sup> Thus injunction as an 'equitable' remedy for patent infringement is the most potent tool in the hands of the patentee.

A great deal has been written and many pixels have been burnt on the issue of availability of injunctions in the context of SEPs.<sup>3</sup> Professor Jorge L Contreras has succinctly noted that:

"the actual scope and contours of FRAND licenses have puzzled lawyers, regulators and courts for years, and past efforts at clarification have never been very successful...[T]here continues to be significant disagreement among market participants over the meaning of FRAND. This disagreement arises both in reference to the level of royalties that should be considered "reasonable," and whether other tactics, such as seeking injunctive relief, are fair game when FRAND commitments have been made. Such disagreements have serious consequences because a commitment to grant a license on FRAND terms is not itself a license. A license to operate under a patent is not granted until the parties can agree on those "fair, reasonable and non-discriminatory" terms. So, if the parties can't agree on the terms of the FRAND license for a particular "standards-

†Email: yogesh.pai@nludelhi.ac.in

essential” patent, the frustrated licensee must either refrain from implementing the standard (and lose a significant market opportunity) or risk infringing the patent. The typical result: litigation”<sup>4</sup>

Thus a substantial part of litigation involving SEPs is in relation to availability of injunctive relief in the context of SEPs infringement. Such litigation primarily arises out of patentee’s ability to hold up due to his ‘right to exclude’ notwithstanding a FRAND commitment given by such patentee at standards development organizations (SDOs). Typically, market players (a prospective SEPs licensee) infringe SEPs and get sued for infringement. Alternatively, they will have to pay royalties as demanded by the SEP holder or simply stay out of that market involving SEPs, which is a not a likely possibility. In some other cases, the market players may over a period of time come out with a non-infringing device, which, however, does not give it the market edge in terms of compatibility offered by an existing SEP. Practically, there are no alternatives to SEPs patents.

From a macro-level impact assessment perspective, there is no empirical literature indicating the scale at which market players settle due to asymmetries in litigation capacities, which would otherwise have been a court determined FRAND. There is also no publicly available information concerning when market players would simply keep-off the SEPs market and thus lose a significant market opportunity or innovate a non-infringing device to substitute SEPs in its product. Similarly, we also do not know the actual terms and conditions offered to different market-players to evaluate the ‘fairness’ criterion involved in SEPs licenses since they are licensed under confidentiality through non-disclosure agreements. The primary reason why SEPs patent holders seek injunctive relief is to have higher negotiating position to bargain actual terms of a FRAND license (largely involving payment of royalties or other non-price conditions like grant back etc.), which exacerbates the problem of patent hold up. Patent holders typically demand royalties on total sales based on the final price of the product and thus do not distinguish between products meant for several different market segments. Furthermore, even if courts were to grant injunctions, they are unable to tailor it to the actual harm caused due to infringement and may thus provide additional market power to

the patentee, which he is not entitled to.<sup>5</sup> In this note, the main focus is solely on the question of availability of injunctive relief.

There is a general consensus that injunction as a remedy in patent law may not accrue in favor of the patentee in the context of SEPs infringement.<sup>6</sup> This is largely owing to the fact that there is no urgency for an injunction when the patentee is voluntarily willing to monetarily compensate himself by way of a FRAND commitment to license. The standard argument presented in cases involving denial of injunctions in the context of SEPs infringement can be attributed to nothing more than a situational logic of a FRAND encumbered patent. In other words, inadequate remedy at law has been a pre-requisite for injunction in such cases. Hence injunctions have been denied in cases involving SEPs. However, such a logical explanation lacks thorough conceptual reasoning.

Current literature has failed to identify that the rational basis for denying injunction is due to the contestability involving what constitutes patent protected ‘markets’ and the meaning attributed to ‘right to exclude’ in markets implicated by standardization. Briefly, this note argues that the remedial variant of ‘right to exclude’ in the form of injunctive relief has relied more on the nature of exclusion thesis involving ‘types’ among the bundle of rights rather than what it means to have a ‘right’ to ‘exclude’ in terms of its impact of patentee’s market power. As a consequence it has become difficult to ascertain the proper scope of exercise of patentee’s monopoly in the context of markets for technologies that are adopted as standards. Issues involving SEPs raise such fundamental questions because of the higher degree of contestability of IP protected markets where the right to exclude can be exercised.

### **Nature of Injunctive Relief in Patent Law**

The historical reason underlying the development of injunctive relief as a remedy can be traced to the inadequacy of common law’s system of remedies to respond to equitable concerns.<sup>7</sup> Hence courts of equity were open to granting injunctive relief. The nature of injunctive relief can be described as a preventive or precautionary remedy available to a party who has a legitimate (*prima-facie* case) or an affirmatively adjudged claim for violation of a right. In this sense, it is not a restorative remedy in as much as it can help prevent a continuing wrong.<sup>8</sup> The right to exclude

available under patent law has traditionally been construed to the availability of injunctive relief. In clear terms it would mean an order of a court directing a party a proceeding to do or refrain from doing a specified act.<sup>8</sup> However, inadequacy of common law remedies has always been the trigger for claiming an injunctive relief. Thus inadequacy of remedies at law also became a pre-condition for grant of an injunctive relief. Tracing the development of injunctive relief can be summarized:<sup>7</sup>

“The injunction, like most equitable remedies, has historically been subject to a formidable set of limitations. According to traditional doctrine, equity would not enjoin a crime, protect personal rights, or act when a legal remedy was deemed adequate. Although such general rules have always been subject to exceptions, the twentieth century has seen the broadening of some exceptions to the point where the existence of many of the rules themselves is in doubt. The expanding role of the injunction is partly due to the attractiveness of so flexible a remedy in a modern society with expanding regulation of complex economic and social affairs. Injunctions have been authorized by statutes in an increasingly wide variety of areas,<sup>1</sup> and courts have become more willing to imply an injunctive remedy to effectuate the purposes of legislation that specifically provides only for administrative action, the recovery of damages, or the imposition of criminal sanctions.... Finally, the merger of law and equity has created a setting in which the relative merits of equitable and legal relief can be weighed by a single court, free from the problems of deference to a competing judicial system.”

Patent law structured around the conceptual framework of property rights’ right to exclude is no exception to the above evolutionary explanation. Most patent statutes in comparative jurisdictions recognize the availability of a remedy in the form of an injunction in favour of the patentee. However, they are largely worded in terms of the court being the final arbiter in deciding whether or not an injunction has to be granted based on terms and conditions the court may think appropriate in a particular case.<sup>9</sup> Because law allows courts such immense discretion in matters of deciding injunctive relief, principles of equity developed over a period of time. Hence the

rigid system of common law system gave way to injunctive relief when inadequacy of common law remedies was shown.<sup>8</sup> Thus the rule of inadequacy of remedies at law still remains the central reason for denying injunctions. In other words, the default has been that the court must be convinced that compensatory damages will not be an adequate remedy.<sup>10</sup> Irreparable harm was considered as a progeny of inadequate remedy rule in which the plaintiff could argue that the damages/compensation were not quantifiable.<sup>10</sup> Contrastingly, the origins of the balance of convenience or hardships rule can be traced to preserving the interests of the defendant.<sup>11</sup> In other words, it prevented the courts from granting injunctive relief in favour of the plaintiff when ‘the cost to the defendant of obeying the injunction is substantially greater than the objective benefit to the plaintiff’.<sup>11</sup> The public interest factor is quite broad where some have called it ‘a catch-all category that enables courts to factor in considerations that might ordinarily have been deemed extraneous to the dispute between the parties—such as whether the issuance of the injunction would impose costs on society as a whole, or whether it would defeat the purposes of the law.’<sup>8</sup>

Courts have regularly granted injunctive relief (both temporary and permanent) on showing of a registered patent and a *prima-facie* claim of infringement (in cases of temporary relief) and/or on judging actual infringement based on merits (as a final remedy). Several jurisdictions failed to apply equity factors and interpreted the right to exclude as nothing else than a right to injunctive relief. The reason for this is succinctly summarized by a scholar thus:

“Even after the property-personal distinction became diluted, the argument that property rights *necessitated* injunctive relief remained, deriving its force from the obvious inadequacy of damages as a preventive-deterrent mechanism. Central to this argument was the notion that if damages were to be the only (or even the primary) form of relief, in a majority of cases one private individual would effectively be allowed to take the resources of another without the latter’s consent—a form of private taking. Whereas the grant of equitable relief (of any kind) had long been considered a matter ‘of grace,’ by the nineteenth century,

courts had begun to expressly repudiate this rule and replace it instead with a rule that injunctions would issue ‘of right’ whenever property rights were at issue. What this meant was merely that the discretion to grant was being replaced with discretion to deny-with the onus now on courts to justify their decisions refusing relief rather than granting it. Invariably, this derived from the ‘balancing of equities’ part of the test. When property rights were involved, courts deemed the irreparability and inadequacy components satisfied; implicit in that determination was the belief that property’s element of *exclusion* could be protected only through injunctive relief. This approach became most apparent in the contexts of real property trespasses and patent infringement, and remains dominant even today.”<sup>8</sup>

However, the position of automaticity of injunctive relief or injunctive relief as a matter of right has been overturned by the seminal US Supreme Court decision in *eBay v MercExchange*.<sup>12</sup> The Supreme Court held that courts must mandatorily evaluate the four factors: irreparable harm, balance of hardships, inadequate remedy at law and public interest in all cases where injunctive relief is sought, including in situations of grant of a permanent injunction. In *eBay*, US Supreme Court had opined that ‘an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.’<sup>12</sup> In other words, the US Supreme Court acknowledged that injunctions as a matter of rule without application of the traditional four-factor test may lead to patent hold-ups.

This has practically led to liability rules being applied in several post-eBay cases.<sup>13</sup> Some scholars have sought balancing of remedies by suggesting that ‘injunctive relief should ordinarily be limited to cases when the patentee seeks lost profits. In cases when the patentee seeks statutory royalties, injunctive relief should ordinarily be denied on the ground that the remedy at law is adequate.’<sup>14</sup>

Although the greatest impact of this decision is on the availability of injunctions to patent assertion entities, its usefulness in cases involving SEPs has been equally remarkable. For e.g. in Justice Kennedy’s opinion, the use of an injunctive remedy

could lead to socially undesirable results that courts should not ignore. He seemed to be concerned about the difficulties in not being able to tailor injunctive relief when he states:

“When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest. In addition injunctive relief may have different consequences for the burgeoning number of patents over business methods, which were not of much economic and legal significance in earlier times. The potential vagueness and suspect validity of some of these patents may affect the calculus under the four-factor test.”<sup>12</sup>

However, many comparative jurisdictions, including India, have still retained a strong presumption in favour of injunctive relief in cases of patent infringement, which has also been applied in the SEPs context. Such contrast makes the study of injunctive relief from a theoretical and conceptual perspective more so relevant.

### **Contract or Property: FRAND Commitments to Third Party Beneficiaries**

Patent holders routinely contract with SDOs to licence their patents on FRAND basis. Currently, there is litigation pending across several jurisdictions on the actual meaning of FRAND. A recent decision by a Seattle District Court in the Microsoft case has interpreted the reasonable royalty concept underlying FRAND encumbered patents. However, very little has been said about how or why standards implementers, who are third party beneficiary and who can enforce claims made by a patentee to SDOs.<sup>15</sup>

Case laws from comparative jurisdiction point to some amount of ambiguity in applying the third party beneficiary standard to the criterion of evaluating injunctive relief. However, courts have generally been clear in accepting standard implementers as third parties. In *Microsoft Corp v Motorola Inc*<sup>16</sup>, the court held that “... Microsoft, as a member of both the IEEE and the ITU, is a third-party beneficiary of Motorola’s commitments to the IEEE and ITU.” The court rejected Motorola’s argument that the IEEE and

ITU commitments were merely unilateral offers to negotiate FRAND licenses. Furthermore, it went on to state that Motorola was obligated to grant Microsoft a FRAND license, not merely ‘to engage in bilateral, good faith negotiations leading to RAND terms.’

However, in *Apple Inc v Motorola Mobility Inc*<sup>17</sup>, the court broadened the scope to include any potential user of a standard. It said: ‘As a potential user of the standards at issue and a prospective licensee of essential patents, Apple is a third party beneficiary of the agreements between Motorola and IEEE and Motorola and ETSI.’ Furthermore, the court also stated that: ‘it makes sense to allow Apple to sue for specific performance of Motorola’s contractual obligations and for the court to determine license terms, if necessary.’<sup>17</sup>

Since the FRAND contract is between the SDO and the patentee, it raises question about exact status of a standards implementer (as a member of SDO or as an outsider) in the context of whether or not he is entitled to a remedy to enforce FRAND or to claim that FRAND operates as a waiver to injunctive relief. This becomes important because if courts treat it as a contractual dispute of FRAND interpretation, it may tend to overlook the property right of a patentee and deny injunctive relief. But the answer to these questions will depend largely on the nature of SDO FRAND contract with the patentee.<sup>18</sup>

Defense of a third party beneficiary in the context of evaluating injunctive relief factors can be availed. For one, if standards implementers are on *de facto* basis held as third parties, then this may become an important criterion for evaluation of the balance of convince in favour of the defendant – i.e. standards implementer. In such cases there are very limited defenses that the plaintiff patentee may raise.<sup>19</sup>

### **Comparative Patent Remedies in the SEPs Context**

In September 2012, the United States Court of Appeals for the Ninth Circuit confirmed a temporary injunction issued by the Washington District Court in favour of Microsoft by blocking the potential enforcement of Motorola’s German patent infringement judgment (decided in May 2012 after the US district court order) on Microsoft’s Xbox 360 (ref.20). These patents covered H.264 video coding standards set by International Telecommunications Union. The court proceeded to apply the eBay factors

and held that Motorola was not entitled to a permanent injunction since there was an adequate remedy at law and the absence of irreparable harm.

Interestingly, notwithstanding the finding of infringement by the German Court, the Ninth Circuit affirmed the decision of the US district court, *inter alia*, on three grounds: (a) that the US litigation between Microsoft and Motorola pertained to a contractual claim of FRAND interpretation, which Motorola had committed to license at the ITU on *worldwide* basis to all beneficiaries implementing the standard; (b) that the German litigation was initiated by Motorola was ‘vexatious or oppressive’ and that it would ‘prejudice... equitable considerations’ since it constituted a ‘procedural maneuver designed to harass Microsoft with the threat of an injunction removing its products from a significant European market and so to interfere with the court’s ability to decide the contractual questions properly before it.’; (c) and that the ‘injunctions impact on comity is tolerable’ because the injunction by district court was narrowly tailored to deter Motorola from enforcing the injunction in lieu of contractual commitments, and that the German suit was initiated only after Microsoft’s current contractual litigation.

In *Apple Inc v Motorola Inc*,<sup>21</sup> Judge Richard Posner also came to a conclusion that availability of adequate remedy at law could be a ground for denying injunctive relief. The underlying logic for denying an injunction also hinged on the fact that each party claimed that damages was ascertainable owing to FRAND commitment by the plaintiff.

In May 2012, the German court had found Microsoft liable for infringing Motorola’s SEPs and had issued an injunction ordering Microsoft to withdraw certain of its patent infringing products from German markets. The German court decided that as per German law it was not required to ascertain Motorola’s FRAND licensing commitment and rejected the argument that FRAND commitments operate as a waiver of claims for injunctive relief.<sup>22</sup>

The United Kingdom has also toed line with the US position by denying a permanent injunction in the case of *Nokia NYJ v ICom GmbH & Co KG*<sup>23</sup> reportedly on the ground that the patent in suit was standard-essential.<sup>24</sup> The court noted:

"And once the licence is granted, which you are willing to grant and Nokia wants and the FRAND terms are determined, if an injunction were

granted, it would come to an end.... I have to say in those circumstances I am very uncertain, to put it mildly, to see why a permanent injunction should be granted in this case at all or indeed any injunction. It seems to me a classic case for consideration of the [*Shelfer v City of London Electric Lighting Co*] criteria, given these circumstances. You are willing to give a licence. Nokia wants to get a licence. You cannot agree on the terms. They will be determined. There will then be a licence. In those circumstances for a non (unclear) [presumably a reference to ICom's NPE status] to get an injunction seems to me quite extraordinary. That has been raised in the written arguments. It seems to me that is the area which I would like you to address me because that may resolve this matter quite apart from all these difficult questions of what the different German judgments mean and which principles of *res judicata* should be applied. It comes down then to the discretion of this court whether it is appropriate to grant an injunction at all."

More recently in French court in Paris saw a dispute between *Ericsson v TCT Mobile*: tribunal de grande instance de Paris<sup>25</sup> on the issue of availability of injunctive relief in the SEPs context. The court emphasized on the principle of proportionality of the effects of granting injunctive relief (more in the nature of balance of hardships) in noting that: 'It is a principle that the holder of patents that are essential to the implementation of a standard must license its technology under mandatory contractual conditions called FRAND. Therefore, in this context, the injunction measure, requested by the holder of the technology, must be proportionate to the interests involved and pronounced with regard to this contractual context between the parties, i.e. when they are in the process of negotiating a licence agreement on patents declared essential.'

The judge after noting several factors involved in the case viz., ongoing negotiations, non-agreement only on the issue of royalties, no bad faith by defendant since 2G SEPs were already concluded etc.. concluded that: 'Therefore, considering these very particular elements of context, in order to prevent a possible injunction measure from skewing the current negotiations between the parties to enable a party, if the need arises, to obtain an unjustified advantage within the framework of the contractual negotiations of a licence relating to essential patents, any request

for an injunction to market products in France lodged by Telefonaktiebolaget LM Ericsson is disproportionate.'

Contrastingly, the United States International Trade Commission (US-ITC) has in many recent cases issued exclusion orders where SEPs are involved. Such exclusion order banning substantial imports of foreign technology products involving infringement of SEPs are routinely granted, notwithstanding FRAND licensing commitments made by patent holders at different national, regional and international SSOs, when their patents are considered 'essential' to a particular standard.<sup>26</sup>

The US-ITC does not follow the *eBay* factors<sup>27</sup> in determining equities in patent injunctions.<sup>26</sup> Hence, there is glaring evidence of differential treatment in the availability of injunctive relief within US district courts and the US-ITC. This gap has been consistently exploited by patent holders by forum shopping at the ITC to stop importation of hi-technology products involving actual/potential infringement of SEPs.<sup>26</sup> Furthermore, although the US-ITC does not have the power to award damages, it can issue injunctions to exclude products from US markets and thus produce significant anticompetitive exclusionary effects and undermine consumer welfare.<sup>26</sup> Adding to all of this, in deciding an appeal from an ITC order involving patent infringement, the Federal Circuit has held that 'The [ITC] is not required to apply the traditional four-factor test for injunctive relief used by district courts when deciding whether to issue the equitable remedy of a permanent injunction.'<sup>28</sup> The US ITC proceedings involving determination of infringement and banning imports of products involving SEPs has come under heavy criticism from US academics.<sup>29</sup>

Frustrated by attempts to block Apple's products in the US, the United States Trade Representative in August 2013 vetoed the US ITC decision in *Samsung v Apple* which found that Apple's product was infringing Samsung's patent considered as SEPs.<sup>30</sup> The decision cites a joint policy statement by DOJ and USPTO which had raised substantial concerns about the implications of injunctive relief in the form of exclusion orders. The USTR cited 'public interest' as the reason for veto. The trade implications of such a decision are yet to be fully comprehended.<sup>30</sup>

### **Patent Injunctions in the Indian Context: *Ex parte* relief and Exclusionary Effects**

In India, no common thread can be found in the jurisprudence on injunctive relief.<sup>31</sup> Different

courts have exercised considerable discretion in evaluating equitable factors for injunctive relief. In the context of SEPs, a recent litigation between *Ericsson v Micromax*<sup>32</sup> is an eye opener. In *Ericsson v Micromax*, the first order that the court granted was an *ex parte*. The court largely failed to understand the contractual aspect of FRAND acting as a waiver for injunctive relief and granted such a remedy. One commentator specifically noted that ‘This order of the Delhi High Court essentially shuts down the entire business of Micromax, a company which employs close to 1,500 people, since the patents in question are essential patents without which their mobile phones cannot be manufactured.’<sup>33</sup> The commentator has suggested that the court has completely abused its discretion by not stating the reasons and not identifying the urgency involved in granting an *ex parte*.<sup>33</sup>

In the next hearing, the court drew a consent order in which Micromax undertook to ‘make a deposit of interim payments in Court, as set out above, within five working days of the intimation by Customs on the arrival of the consignment. Post inspection, Ericsson will forthwith inform the Customs that it has no objection to the release of the consignment so that the consignment could immediately be handed over to Micromax.’ It further said that ‘Both the parties agree that the royalties, if any, for the past period will be negotiated as part of the final FRAND agreement that may be arrived at between the parties. Both parties shall endeavour to negotiate the final FRAND terms by 9 April 2013 during which time the above arrangement shall operate. In the event that parties are unable to arrive at FRAND terms pursuant to negotiations, they have the option of appearing for mediation.’ The Customs were directed to cooperate with the parties for implementation of the order. Some have questioned is such a requirement in effect exclusionary.<sup>34</sup> It may be noted that an *ex parte* injunction actually forced the defendant-standards implementer to settle for a negation. Not surprisingly, Micromax filed a complaint with the CCI against Ericsson for abuse of dominance.<sup>35</sup> Similarly, Intex has also filed a complaint against Ericsson on the issue of SEPs royalty.<sup>36</sup> However, a recent ruling of the Delhi High Court has asked the CCI not to deliver any order concerning the issue since Ericsson was successful in arguing that the patent law has adequate measure to balance the rights and CCI had no jurisdiction to entertain.<sup>37</sup> An analysis of such issues

requires in detail examination which is beyond the scope of this note.

### **Patent law’s Contestable Construct of Remedial System and Patent Protected Markets**

Conferring market power is an inherent feature and an object of the patent system designed to promote innovation.<sup>38</sup> The internal tool that patent law uses to assert its economic effect by way of allowing market power is by providing the ‘right to exclude’. As noted by a scholar, ‘[L]eaving aside statutory limitations and exceptions that provide otherwise, intellectual property rights are characterized by their granting a legal exclusivity’.<sup>38</sup> However, it does not mean that such a market power in its actuality is directly conveyed by patent law’s exclusionary dimension itself. The market power is conveyed by the market that is protected by patent law. In other words, a patent does not convey a monopoly through the right to exclude, but it is the market acceptability and response for the patented product that leads to market-power.<sup>38</sup> The simple point here is that while right to exclude although forms a central element in the patent-property paradigm, it is the ‘market’ which conveys it the power. Hence, both, the nature of the ‘right to exclude’ and the nature of ‘markets’ protected by way of such a right to exclude ultimately define the degree of monopolistic market power exercised by the patent holder and their actual market-effect. This note argues that none of these two concepts are theoretically and conceptually clear in their relationship with the remedial variant of ‘right to exclude’ in the form of injunctions, which thus leads to effectively undermining the rational basis for denying injunctions in the context of SEPs infringement.

The ‘right to exclude’ is in essence ‘property’. As noted by a commentator: “Give someone the right to exclude others from a valued resource, i.e., a resource that is scarce relative to the human demand for it, and you give them property. Deny someone the exclusion right and they do not have property’.<sup>39</sup> In fact, as courts have repeatedly noted that without the right to obtain injunctive relief, ‘the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research’.<sup>40</sup>

This thesis of a right to exclude does not also mean that other secondary bundle of rights- i.e. a right to

convey/alienate property is not useful. However, without exclusion, the secondary bundle of rights hardly adds any economic value to the property holder. The pertinent question in this context is what does the right to exclude entail in terms of a remedy. The remedial system is succinctly summarized by a commentator thus:<sup>41</sup>

“Remedial doctrine does not concern itself with defining substantive interests but, instead, concerns itself with the proper method of vindicating interests that wrongdoers have injured. The legal process remedies damage to a legal interest by punishing, extracting money, and forbidding conduct. These remedies take the form of criminal sanctions, money judgments and injunctions, respectively. The process of choosing between money judgments and injunctions is a remedial policy decision of great importance. Judges recognize that money is but a substitute which can neither restore nor replace plaintiff's right. If social and procedural policy support the decision to enjoin, however, equity's ‘strong arm,’ the injunction, forbids the wrong instead of compensating for its occurrence.”

So when does equity lend its ‘strong arm’ against the infringing defendant in the form of an injunction? It lends by allowing the patentee to exercise his market power by excluding others in the market. But the pertinent question is which ‘market’. Are patentees able to exercise the relevant market power in all markets? Patent statute does not offer any *per se* clarity into the exact ‘field of use’ where patent holders right to exclude can be exercised. Hence, by virtue of being neutral in terms of in which ‘fields’ based on the type of ‘use’ exercised, it is inherently presumed that patent holder exclusivity extends to all markets. This doctrine of inherency has been recognized as a principle underlying patent monopoly in the context of antitrust immunity. As early as in 1938 in *General Talking Pictures Corp v Western Electric Co*, the US Supreme Court held that:<sup>42</sup>

‘Patent owners may grant licenses extending to all uses or limited to [a] use in a defined field.... Unquestionably, the owner of a patent may grant licenses to manufacture, use or sell upon conditions not inconsistent with the scope of the monopoly.’

However, this view has been questioned by scholars based on the conceptual dilemmas in

understanding what fall ‘in’ the ‘outside’ the patent holders exclusivity. A commentator notes:<sup>43</sup>

“The adherents of inherency, solely concerned with determining whether a right conferred by licensing is ‘within’ or ‘outside’ the grant, ignore the practical realities of licensing. The justifications they advance are grounded not on patent or antitrust policies but on logical propositions independent of either. These static, casuistic approaches disregard practical considerations of major significance, such as the importance and strength of the patent involved and the respective economic power and interests of licensors and licensees-the very dynamics of the patent system. This omission is inexcusable: licensing techniques should be evaluated with respect to economic realities. They should stand or fall on their own merits, without the specious support of the inherency doctrine.”

Thus what patent law and IP law in general do is to only clarify what type of rights can be exercised viz., making, selling, offering for sale, importation, distribution etc... For e.g. the controversy with reference to patentee control over grey market after first sale is a classic example of the ‘inherency’ problems in understanding the nature of patent exclusivity *vis-à-vis* the principle of exhaustion.<sup>44</sup> Hence it is pertinent to understand what a ‘market’ for patents constitute. But since there is no way one can possibly find what those markets are, it is safe to presume that any ‘market’ where a patent holder can obtain value in return for a willing buyer/user. But the above hypothetical definition has a problem. It does not sufficiently tell us how patent law exclusivity interacts with the market and their actual effect on the market. This is precise the contestation involved in the issue of interaction between patent law's market power and standards.

Standards convey a certain degree of market power. This is owing to very factors of nature of standard-setting and the nature of demand for standardized products. As noted by a commentator examining the underlying economic issues behind standards and market power:

“Standard-setting exercises normally arise only when there are technology alternatives to select among, and so, almost by definition, are likely to occur in competitive-perhaps very competitive-technology markets. Even when conditions are

competitive before the selection of a standard, however, the act of selection may lead to *ex-post* market power for owners of IP necessary to practice the winning standard.”<sup>45</sup>

However, in spite of the initial competition involved in selection of a standard, there are at least two factors that can lead to conveying additional market power that is not accrued to standardized technology. First- due to network effects, phenomenon of path dependence, vendor lock-in, critical mass and tipping in network markets. Hence the demand that is created in such cases is not due to effective working of the competition but by virtue of a standard-setting body choosing a particular standard. In other words, the markets do not choose a particular standard-a standard that’s voluntary chosen, albeit through a competitive process, is imposed on the market. Hence in such circumstances an inferior standard may be accepted notwithstanding cheaper prices or the product being good, but because it is widely expected to do so due to the presence of strong network effects.<sup>45</sup> Second- the presence of switch-over costs when investments are sunk for the particular standard that is adopted by an SSO.<sup>45</sup> There can be *ex-post* impediments to competition because of obstacles to the use of alternative technologies and can lead to lock-in.<sup>45</sup> Thus a market-power which is not inherently conveyed by patent law is acquired when a patented technology is adopted as a standard. Hence the market power that may rightly be assigned to a patentee remains contested.

However, commentators have questioned whether injunctive relief in FRAND cases can actually lead to additional market power than in non-FRAND cases. Based on economic modeling of dispute between a SEPs owner and a standards implementer, the commentator concludes that their model shows:<sup>46</sup>

“relatively benign impact of the injunctive threat is that the implementer always has a last resort escape hatch to accept license terms that are either certified by a court as RAND or mutually agreed upon by the patentee and implementer.... an injunction could be granted, if at all, only if a licensee refuses to accept court-certified RAND terms, which is unlikely to occur in practice (that is, “along the equilibrium path”). If used judiciously by the courts, the threat of the imposition of an injunction can serve, when needed, to move patent disputes towards resolution. Whether through bargaining between

the parties or by judicial determination, it is hoped that the resolution of these disputes will achieve a reasonable balance between the valued interests of innovator-patentees, while at the same time supporting the creation and development of standard-setting organizations and rewarding the technological and marketing investments of innovator-licensees.”<sup>46</sup>

The above view considers that availability of injunctive relief in favour of the patentee somehow balances/offsets the availability of FRAND adjudged royalties in favour of the standards implementer. The argument is that implementer can always get the court determined royalty rate towards the end of the dispute when judged on merits (by way of interpreting FRAND royalties). Essentially, in the context of patent law parlance, the availability of remedy at law in the form of monetary damages is a sufficient consideration to issue an injunction. Since it will drive parties to a resolution, at least in some cases the court need not finally adjudicate FRAND. However, this argument overlooks an important factor identified in the analysis above concerning the additional market power that the patentee may get by the very fact of it being adopted as a standard. Even the final resolution in such cases may not lead to equitable royalties since it is not inherent in the market power conveyed by patent law.

Injunctive relief cannot factor-in such a contested nature of market power because the ‘right to exclude’ falls back on the ‘inherency’ character of patent monopoly. Thus injunctive relief leads to additional market power which is not conveyed by patent law. As already seen, nature of arguments offered for denying injunctive relief heavily relies on the situational logic of patent holder committing to FRAND royalties and thus concluding the availability of remedy at law in the form of monetary damages. Relying on such a situational logic cannot provide a rational basis because it still falls back on the inherency character. In other words, had it not been for patentee’s voluntary acceptance for FRAND based royalties, patent law’s remedial variant of injunctive relief would presume that an injunction may be due in cases where a patent is embedded in a standard. This leads to certain logical fallacies because it essentially fails to rationalize the additional market power argument which is the primary basis for denying injunctive relief.

## Conclusion

This note shows that increasingly, courts across several jurisdictions are unwilling to grant injunctions in cases involving infringement of SEPs, the teleological reason being the unfair/inequitable outcomes due to the patentee gaining an additional market power not conveyed by the patent. The courts by evaluating the equitable factors deny injunctions based on an underlying logic that since a patentee is purely interested in deriving royalty on his patents committed by way of FRAND licensing offers he may be compensated monetarily in lieu of an injunction.

This note, however, argued that availability of adequate remedy at law coupled with lack of irreparable harm due to existence of FRAND commitment is not the only way to explain the rational basis of lack of injunctive relief when viewed through a theoretical and conceptual prism. This note chronicles the legal construct of patent injunctions from a comparative law perspective and articulates that the rational basis for denial of an injunction for alleged infringement of SEPs is due to patent law's inability to construe the 'right to exclude' and its relationship with SEPs protected market since it is fraught with conceptual and inherent definitional fallacies of assessment of 'market power' that go beyond the pale of patent law and policy. It is argued that injunctive relief cannot factor-in such a contested nature of market power because the 'right to exclude' falls back on the 'inherency' character of patent monopoly. Thus injunctive relief leads to additional market power which is not conveyed by patent law in the context of SEPs infringement.

## References

- 1 Bacon, Of Innovations *cited in* Developments in the Law: Injunctions, *Harvard Law Review*, 78 (5) (1965) 994-1093.
- 2 *American Cyanamid Co v Ethicon Limited* [1975] 1 AER 504.
- 3 See generally, Micheal Frohlich, The smartphone patent wars saga: availability of injunctive relief for standard essential patents, *Journal of Intellectual Property Law & Practice*, 9 (2) (2014) 156-159; Mueller F, Intel: Injunctions [over] FRAND-encumbered SEPs create a risk of coerced windfall settlements.' - Foss patents, 2013, <http://www.fosspatents.com/2013/03/intel-injunctions-over-frand-encumbered.html>; Yeh Brian T, Availability of injunctive relief for standard-essential patent holders CRS Report for Congress, prepared for Members and Committees of Congress (2013), [http://ipmall.info/hosted\\_resources/crs/R42705\\_130110.pdf](http://ipmall.info/hosted_resources/crs/R42705_130110.pdf); Camesasca Peter *et. al.*, Injunctions for standards-essential patents: Justice is not blind, *Journal of Competition Law & Economics*, 9 (2)(2013) 285-311.
- 4 Contreras Jorge L, *The February of FRAND*, 6 March 2012, Patently-O Patent Law Blog, <http://www.patentlyo.com/patent/2012/03/february-of-frand.html>.
- 5 Schoenbrod David S, The measure of an injunction: A principle to replace balancing the equities and tailoring the remedy, *Minnesota Law Review*, 72 (1988) 627.
- 6 Cases on injunctive relief in the context of SEPs is discussed in the *infra* section on "Comparative Patent Remedies in the SEPs Context" While some courts have denied injunctive relief in certain jurisdictions, other have allowed even *ex parte* injunctions.
- 7 Developments in the law: Injunctions, *Harvard Law Review*, 78 (5) (1965) 994-1093.
- 8 Balganes Shyamkrishna, Demystifying the right to exclude: Of property inviolability and automatic injunctions, *Harvard Journal of Law & Public Policy*, 31 (2) (2008) 593-640.
- 9 For example, Section 108 of the Patents Act, 1970 specifies the "Relief in suit for infringement"- The reliefs which a court *may* grant in any suit for infringement include an injunction (subject to such terms, if any, as the court thinks fit) and, at the option of the plaintiff, either damages or an accounts for profits.
- 10 Rendleman Doug R, The Inadequate Remedy at Law Prerequisite for an Injunction, (1981). *Faculty Publications*. Paper 886, <http://scholarship.law.wm.edu/facpubs/886>, It notes: "To win injunctive relief, the plaintiff must show that his injury is irreparable with money or that money is an inadequate remedy. Plaintiff's damage remedy is inadequate if it is less efficient, speedy and practical. Plaintiff's injury is irreparable by money when it cannot be measured, compensated, restored, or repaired."
- 11 Thompson Barton H, Jr., Note, *Injunction Negotiations: An Economic, Moral, and Legal Analysis*, *Stanford Law Review*, 27 (1975) 1563, 1577.
- 12 *eBay Inc v MercExchange*, L.L.C., 547 U.S. 388 (2006).
- 13 Tang Yixin H, *The future of patent enforcement after eBay Inc v MercExchange*, *Harvard Journal of Law and Technology*, 20 (1) (2006) 235.
- 14 Fischer James M, The Right to Injunctive Relief for Patent Infringement, *Santa Clara Computer & High Technology Law Journal*, 24(1) (2007) 1-30, <http://digitalcommons.law.scu.edu/chtlj/vol24/iss1/1>.
- 15 The issue of third party beneficiary and their consequences injunctive relief has been sparsely studied. See generally, Cotter Thomas F, The comparative law and economics of standard-essential patents and FRAND royalties (29 August 2013), *Texas Intellectual Property Law Journal*, forthcoming; *Minnesota Legal Studies Research Paper No. 13-40*, <http://ssrn.com/abstract=2318050>.
- 16 *Microsoft Corp v Motorola Inc* ` 854 F. Supp. 2d 993, 999 (W.D. Wash. 2012).
- 17 *Apple Inc v Motorola Mobility Inc* , 886 F. Supp. 2d 1061, 1085 (W.D. Wash. 2012).
- 18 Cotter Thomas F, The comparative law and economics of standard-essential patents and FRAND royalties (29 August 2013), *Texas Intellectual Property Law Journal*, forthcoming; *Minnesota Legal Studies Research Paper No. 13-40*, <http://ssrn.com/abstract=2318050>.
- 19 Eisenberg Melvin Aron, Third-party beneficiaries, *Columbia Law Review*, 92 (6) (1992) 1358-1430.

- 20 *Microsoft Corporation v Motorola Inc* (9th circuit, September 2012).
- 21 *Apple Inc v Motorola Inc*, 869 F. Supp. 2d 901, 913-15 (N.D. Ill. 2012).
- 22 Cited from German translation provided by parties in *Microsoft Corporation v Motorola Inc* (9th circuit, September 2012).
- 23 *Nokia NYJ v ICom GmbH & Co KG* [2012] EWHC 3545 (Pat) (Pats. Ct. 2012) (Eng.).
- 24 *UK High Court Denies a Patent Injunction Against Nokia in Light of a FRAND Commitment*, Foss Patents (May 30, 2012), <http://www.fosspatents.com/2012/05/uk-high-court-denies-patent-injunction.html>.
- 25 Docket № 12/14922, 29 November 2013.
- 26 Chien Colleen V and Lemley Mark A, Patent holdup, the ITC, and the public interest, *Cornell Law Review*, 98 (1) (2012); Stanford Public Law Working Paper No. 2022168, SSRN:<http://ssrn.com/abstract=2022168>, Colleen and Lemley (2012) notes that: "In 2011, every major smartphone maker was embroiled in a dispute there [US-ITC]". For example see: *Re: In the Matter of Certain Wireless Communications Devices, Portable Music and Data Processing Devices, Computers, and Components Thereof*, Investigation No. 337-TA-745 or *In re Certain Mobile Devices, Associated Software, and Components Thereof, Initial Determination on Violation of Section 337 and Recommended Determination on Remedy and Bond*, Inv. No. 337 - TA - 744 (Dec. 20, 2011).
- 27 *eBay Inc v MercExchange, L.L.C.*, 547 U.S. 388 (2006). It was held that: "That test requires a plaintiff to demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law 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".
- 28 *Spanion Inc v International Trade Commission*, Fed. Cir. Dec. 21, 2010, [http://www.ipo.org/AM/Template.cfm?Section=Federal\\_Circuit\\_Opinions&ContentID=27932&template=/CM/ContentDisplay.cfm](http://www.ipo.org/AM/Template.cfm?Section=Federal_Circuit_Opinions&ContentID=27932&template=/CM/ContentDisplay.cfm)
- 29 Chien Colleen V and Lemley Mark A, Patent holdup, the ITC, and the public interest, *Cornell Law Review*, 98 (1) (2012); Stanford Public Law Working Paper No. 2022168, SSRN: <http://ssrn.com/abstract=2022168>, In June 2012, nineteen professors in economics and law requested the United States International Trade Commission maintain caution in issuing exclusion orders over patent infringing imported goods where SEPs have been licensed on FRAND terms. The petition advocates for a "position that ITC exclusion orders generally should not be granted under § 1337(d)(1) on the basis of patents subject to obligations to license on "reasonable and non-discriminatory" (RAND) terms. Doing so would undermine the significant pro-competitive and pro-consumer benefits that RAND promises produce and the investments they enable. A possible exception may arise if district court jurisdiction is lacking, the patent is valid and infringed, and the public interest favors issuing an exclusion order". See Chien Colleen *et. al.*, (2012).
- 30 USTR, Decision on Disapproval of US ITC Determination of in the Matter of Investigation 337-TA-794 available at: [http://www.ustr.gov/sites/default/files/08032013%20Letter\\_1.PDF](http://www.ustr.gov/sites/default/files/08032013%20Letter_1.PDF).
- 31 For nature of injunctive relief in India, see generally, Padmanabhan Ananth, *Intellectual Property Rights: Infringement and Remedies* (Lexis Nexis Butterworths, Wadhwa, Nagpur), 2012.
- 32 *Ericsson v Micromax*, CS(OS) 442/2013, [http://delhihighcourt.nic.in/dhcqrydisp\\_o.asp?pn=46519&yr=2013](http://delhihighcourt.nic.in/dhcqrydisp_o.asp?pn=46519&yr=2013).
- 33 Prashant Reddy T, Interim justice, troubling trend, business times, [http://www.business-standard.com/article/opinion/interim-justice-troubling-trend-113033000223\\_1.html](http://www.business-standard.com/article/opinion/interim-justice-troubling-trend-113033000223_1.html).
- 34 <http://spicyip.com/2013/03/ericsson-sues-micromax-over-seps-in-100.html>.
- 35 Case NO. 50/2013 <http://www.cci.gov.in/May2011/OrderOfCommission/261/502013.pdf>.
- 36 Case No. 76/2013 <http://www.cci.gov.in/May2011/OrderOfCommission/261/762013.pdf>
- 37 Sinha Anubha, FRANDly wars at Delhi HC: Ericsson cries foul play against Intex; CCI barred from adjudicating the dispute (February 2013), <http://spicyip.com/2014/02/frandly-wars-at-delhi-hc-ericsson-cries-foul-play-against-intex-cci-barred-from-adjudicating-the-dispute.html>.
- 38 Drexl Josef, The relationship between the legal exclusivity and economic market power, in *Intellectual Property, Market Power and the Public Interest*, P.I.E Peter Lang, Brussels (2008), 13, 14.
- 39 Merrill Thomas W, Property and the right to exclude, *Nebraska Law Review*, 77 (1998) 730.
- 40 *Smith Int'l Inc v Hughes Tool Co*, 718 F.2d 1573, 1578 (Fed. Cir. 1983).
- 41 Rendleman, Doug R, The inadequate remedy at law prerequisite for an injunction" ,1981, *Faculty Publications*. Paper 886, <http://scholarship.law.wm.edu/facpubs/886>.
- 42 *General Talking Pictures Corp v Western Electric Co*, 305 U.S. 124 (1938).
- 43 Adelman, Martin J, Juenger Friedrich K, Patent-antitrust: Patent dynamics and field-of-use licensing, *New York University Law Review*, 50 (1975) 259, 273.
- 44 Ghosh Shubha, Pills, patents, and power: State creation of gray markets as a limit on patent rights, *Florida Journal of International Law*, 14 (2001-2002) 217, 259.
- 45 Swanson Daniel G and Baumol William J, Nondiscriminatory (RAND) royalties, standards selection, and control of market power, *Antitrust Law Journal*, 73 (1) (2005) 1-58.
- 46 Ratliff James D and Rubinfeld Daniel L, The use and threat of injunctions in the RAND context, *Journal of Competition Law and Economics*, 9 (1) (2013) 1-22.