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Former USPTO head says Biden Administration should continue the current direction of SEP policy

Under President Trump both the Department of Justice and USPTO have adopted policies that have been far friendlier to SEP owners than under President Obama. With a Biden White House just weeks away, former USPTO Director David Kappos argues that the current balance between rights holders and implementers should remain

When presidential administrations change, as will happen this month, the incomers often go to great lengths to distinguish themselves from their predecessors. Instead of reflecting on progress made over the previous four years, the instinct is to move on. Yet, reflecting on the accomplishments of an outgoing administration can be critical to ensuring that progress continues and regression is avoided. This is undoubtedly the case with the current administration's antitrust and intellectual property policies relating to standard-essential patents (SEPs) - policies engineered by the Department of Justice (DOJ) and the US Patent & Trademark Office (USPTO).

Antitrust and IP policy direction regarding SEPs often revolves around prioritisation between the interests of innovators who develop the technology underlying industry standards, and implementers who utilise that technology to manufacture products. Prior to the **current administration**, that policy was set in favour of implementers, based on the prevailing view that patents conferred too much power to innovators, enabling them to hold-up implementers by refusing to license their patents unless they were paid unreasonably high licensing fees.

However, the Trump administration, after examining objective marketplace data and pro-innovation overseas policies, has reversed this viewpoint. Instead, it has shifted focus to fostering balance between the interests of innovators and implementers, with a view that ensuring patentees have adequate incentives to innovate is equally as important as ensuring implementers have access to appropriately priced licences so that they can make products. This new approach has had a significant positive impact in both encouraging a vibrant innovation climate and providing downstream opportunities for market participants.

The first facet of the administration's approach to balancing SEP incentives has been to recognise that patent hold-up, even if proven, is not fundamentally an antitrust injury. The DOJ Antitrust Division has affirmatively espoused this view in **multiple cases**, pointing out that alleged breaches of fair, reasonable and non-discriminatory (FRAND) commitments in the standards setting context do not sound in antitrust law, but are instead "**quintessential contract law problems**".

Given that the FRAND commitments patent holders make to standards developing organisations (SDOs) are contractual in nature, any later breach of those commitments should be remedied as a breach of contract. The availability of a remedy in antitrust, which includes the threat of treble damages, confers an unwarranted advantage to implementers in negotiating licence agreements for standard-essential technologies and deters innovators from participating in the standards setting process – to the detriment of consumers who lose access to cutting edge technologies.

With contractual remedies available, recusing antitrust law from patent hold-up disputes has marked a critical and positive step. It is simply good policy to let hundreds of years of well-developed contract remedies resolve contract disputes and this policy should be carried forward in the next administration and in the courts.

The current administration has also encouraged SDOs to seek balance between innovators and implementers by recognising not just patent hold-up, but also patent hold-out – where implementers utilise a patented standard-essential technology without taking a licence. Indeed, the DOJ now recognises that hold-out is a greater threat than hold-up, with well-heeled implementers readily able to exploit innovation-based standards while refusing to pay for access to the patented innovations that make those standards possible. Taking the issue of hold-out into account, in September of 2020 **the DOJ amended its 2015 Letter** to the Institute of Electrical and Electronics Engineers (IEEE) that had offered comfort to the IEEE's policy change favoring the interests of implementers over innovators.

In its amended letter, the DOJ recognised hold-out as the dominant risk and tasked the IEEE with rebalancing its policy. By adequately assessing the threat of patent hold-out, the current administration's policies relating to SEPs better ensure fair play by both innovators and implementers to the benefit of the innovation outcomes, growth and consumers as a whole. This marks another positive shift in policy based on observed developments on the ground and deserves continued adherence going forward.

Finally, the current administration's approach to SEPs has encouraged the protection of a patentee's injunctive right, reversing a trend towards a *de facto* compulsory licensing regime against holders of SEPs. Under the 2019 ***Joint Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/Rand Commitments***, the USPTO, the National Institute of Standards and Technology and the DOJ jointly reaffirmed a SEP holder's right to injunctive relief against infringing parties.

Without the fundamental right to injunctive relief for holders of SEPs, the incentive to contribute innovative technology to the standards-setting process is greatly diminished. Perhaps more concerning, without any prospect of being enjoined, implementers proceed undeterred from infringing SEPs. The reaffirmation of a SEP holder's right to injunctive relief is also significant in aligning the United States' approach towards SEPs with other countries, including **Germany** and the **UK**.

By aligning with overseas developments, this final tenet of the current administration's approach illustrates an emergent global understanding that innovators in the standards-setting process make important contributions which must be incentivised and championed for the benefit of dynamic competition and consumers.

The pro-innovation approach of the current administration has been critical in re-incentivising innovations contributed to industry standards. Only through ensuring a realistic promise of return on investment in innovation are innovators adequately encouraged to invest in R&D to create new technologies. Through access to the innovators' investments, implementers and consumers benefit as well from technological advancements.

With the inauguration just weeks away, the new administration should continue to seek a balance between the interests of SEP innovators and the implementers, and continue to recognise the importance of adequate incentives for contributing innovations into standards processes. Importantly, the new administration should continue to heed the data, and avoid regression to policies now unsupported by data.

We have learned much in the last four years. Incentives for implementation still matter, but incentives for innovation also matter. Innovators take huge risks, and deserve to be compensated when their risks pay off. Antitrust and IP policy must reflect this reality, and they now do.

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