SSOs, SEPs and RAND licensing: patent law evolves to accommodate technology

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In an attempt to make modern technology more accessible to consumers, doctrines in patent law are emerging that blend patent rights and basic contract law.

These doctrines erode the traditional patent monopoly bestowed on inventors and innovators in exchange for their work in developing technology and then offering it to the public. The source of this erosion of the patent monopoly arises with international standard setting organizations (SSOs).

The purpose of SSOs is to standardize technology for the general benefit of consumers. They were created to avoid situations similar to the Sony v. Betamax wars over tape-recording technology. By establishing an industry consensus, consumers and downstream manufacturers can be confident the technology they buy will be interoperable with related technology and useful as long as they are technologically non-obsolete.

SSOs create a standard essential patent (SEP) when patented technology is adopted to their standards. During the standard drafting process, participating companies are requested to submit their patented technology to the SSO for consideration as part of the standard.

If the technology is adopted into the standard, the patent is likely standard essential. In exchange for having the technology included in the standard, a company is required to license its patents on reasonable and non-discriminatory (or RAND) terms.

This means contract principles end up governing patent disputes which can result in causes of action by an accused infringer for breach of contract — or breach of the implied covenant of good faith and fair dealing. This is because all users of the technology are third-party beneficiaries of the contract between the patent owner and the SSO. Most importantly, the failure to honor a RAND obligation may invalidate the patent.
The owner of an SEP forfeits the right to exclude. The owner cannot obtain an injunction for patent infringement in U.S. District Court or an exclusion order in the International Trade Commission under most circumstances.

The existence of an SEP will also likely impact the calculation of a reasonable royalty for future infringement. Recent cases suggest limited damages going to SEP owners in patent infringement actions.

SSOs make it clear in their policy statements that they do not make determinations of essentiality. Further confusing the issue, each SSO has a slightly different definition of what makes a patent essential. Therefore, it is critical to review the definition of the relevant SSO for your technology.

Because these are fundamentally contract disputes, the determination of whether claims are standard essential depends upon the language of the applicable standard. Generally speaking, if a claim element is an express requirement of the standard, the patent claim is standard-essential.

An added claim limitation would not preclude a claim from being standard-essential if it is directed to conventional technology. The party asserting the RAND obligation bears the burden of establishing a RAND commitment with respect to each patent claim.

RAND obligations require the patent holder to make an initial good faith RAND offer to the infringer. RAND rates are ultimately arrived at using a “modified” Georgia-Pacific analysis. Using this modified approach tends to lower the ultimate RAND rate considerably.

The 3rd U.S. Circuit Court of Appeals invalidated a patent because of an SEP holder’s intentional breach of its RAND duty of disclosure by making a comparison to patent misuse. In this case, the duty breached was not the duty to offer a RAND rate to a competitor but the duty to disclose an SEP to the relevant SSO.

This is an important distinction because violating the duty to disclose taints the entire standard-setting process. It results in a technology being included in a standard without the patentee agreeing to the quid pro quo of licensing non-exclusively on RAND terms.

In contrast, the duty to offer a RAND rate initially does not implicate such broad concerns. The likely difficulty in obtaining an injunction against any infringing use mitigates any breach to a money damage issue.

Despite this distinction, several litigants have attempted to expand this decision to include breaches of offering a RAND rate based on language in the opinion that states, “[the patentee’s] conduct was so inconsistent with an intent to enforce its rights as to induce a reasonable belief that such right has been relinquished.”

Furthermore, RAND issues can be raised to provide a basis for an independent cause of action for breach of contract or breach of the implied covenant of good faith and fair dealing. Therefore, fundamental issues of patentability and claim construction can be raised in a contract action.

Another open question is in what venue appeals of RAND issues will be heard. Instead of having these disputes appealed to the Federal Circuit, it is possible that appeals regarding RAND
obligations may stay with the regional circuit. This approach would upset the established system in which patent appeals are decided in a specialized court to avoid divergent patent rights in different parts of the country.

SSOs attempt to balance the conflicting interests between patent holders and entities that primarily want to manufacture products implementing the standard. SSOs need to develop policies that make engagement in the SSO equally appealing and rewarding to patent holders and manufacturing implementers. Too many restrictions on patent holders reduces participation by the patentees; too few reduces participation by implementers.

Unfortunately, recent court decisions appear to be allowing RAND obligations to be used by infringers as a club to beat back intentional infringement.

Furthermore, the use of RAND as an affirmative defense has significantly reduced damages awarded for infringement. It is possible that SSOs and the noble goals for which they were created could fall by the wayside if patent holders lack the incentive to standardize their technology.