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IEEE further restricts patent rights

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Earlier this year, the Institute for Electrical and Electronics Engineers (IEEE) revised its policy on the use of Standard Essential Patents (SEPs) further restricting the patent rights of patent holders.

The IEEE policy changes restrict the negotiating ability of patent holders in establishing a reasonable and nondiscriminatory (RAND) rate and remove an important lever by severely restricting the ability of patent holders to obtain an injunction against a knowing infringer.

The IEEE's new policy bases a RAND rate on the smallest saleable unit containing the technology. The IEEE's new policy also expressly states that an SEP holder cannot seek injunctive relief unless a licensee refuses to pay a RAND rate set by a court.

These two changes further weaken patent rights and reduce an innovator's incentive to provide technology to the IEEE for inclusion in future standards.

SEPs are patents that are essential to a technological standard promoted by Standard Setting Organizations, like the IEEE. The IEEE currently publishes standards for Wi-Fi and other networking technology. These standards are ostensibly designed to allow the free flow of technology to consumers through standardized end products.

The IEEE already had a unique approach to SEPs. The IEEE defines an essential patent claim as one providing the only commercially and technically feasible way to implement a mandatory or optional portion of the standard at the time of the standard's adoption.

The IEEE is the only standard-setting body that explicitly provides for commercial essentiality in its definition of patent essentiality. The other standard setting organizations, such as the ITU, focus only on technical essentiality. The IEEE definition of essentiality broadens the number of patents covered by its patent policy.

The broad definition is very important. By having an SEP, patent owners restrict their patent rights. Patent holders must license SEPs on RAND terms, which are significantly lower than the

market would generally provide. The IEEE's new patent policy further limits a patent holder's rights by limiting the royalty base to the smallest saleable unit.

On its face, the requirement that RAND rates are to be determined based on the smallest saleable unit is non-controversial. This is often the standard taken by federal courts when determining a reasonable patent royalty during litigation. The problem arises, however, because RAND licensing negotiations are not undertaken in the litigation context.

Patent holders and their potential licensees should be allowed to negotiate the RAND royalty on whatever basis the parties deem commercially advantageous for them. The IEEE decided what a RAND rate should be while expressly disclaiming whether a patent submitted is, in fact, essential.

The IEEE wants to control some aspects of the RAND process while punting on the most important, essentiality.

The change barring patent holders from seeking an injunction is another step toward removing patent rights from well-developed statutory and common law and into the arena of contract law. This move will further erode patent rights and embolden infringers.

The U.S. Court of Appeals for the Federal Circuit recently decided that under federal law, seeking an injunction on RAND-obligated patents was not per se improper. While the courts have not defined the extent of a justifiable injunction in the RAND context, it certainly will be broader than the IEEE policy pronouncement.

If an innovation company submits its technology to the IEEE, it cannot seek to bar a knowing, intentional infringer of its patent rights without first obtaining a court order setting a RAND rate and securing appellate review.

Think about this for a minute: A patent holder cannot enforce its rights through an injunction if an infringer refuses to negotiate a RAND rate or does so in bad faith. A patent holder must first litigate a RAND rate before obtaining an injunction or exclusion order.

This litigation includes resolution on first-level appellate review. Therefore, an infringer can infringe for several years, causing the patent holder to incur substantial legal fees while the litigation is pending before an injunction can be issued. This will only embolden patent infringers and further erode the negotiating power of SEP patent holders.

This change is also important as courts will enforce the IEEE patent policy against patent holders under contract theories. This is because infringers are third-party beneficiaries of the contract between the IEEE and the patent holder. It is debatable whether it is desirable for international organizations to usurp federal patent law.

The IEEE policy change also has the potential to remove the Federal Circuit from the review of RAND patent claims.

Congress determined that it is best for a single tribunal to decide patent appeals to ensure consistent patent law in the United States. However, because the RAND obligations under the IEEE patent policy are contract rights, the Federal Circuit in which the U.S. District Court sits will likely review them.

This has the potential to lead to differing interpretations of patent rights in different parts of the country.

The IEEE has attempted to clarify its patent policy and protect its standards from unscrupulous patent holders leveraging standardized technology for higher license rates. Unfortunately, infringers are emboldened to delay and refuse to take a license to technology they did not develop because there are no longer any real repercussions to infringement.

The IEEE's latest policy will likely have the opposite effect to its goals and lead to fewer technology innovators incorporating their technology into international standards.

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