Antitrust Agencies Will Remain Focused On Patent Conduct

Law360, New York (February 04, 2013, 12:01 PM ET) -- If recent events are any indication, U.S. and European antitrust agencies will remain focused this year on the intersection of intellectual property and competition law. In particular, the agencies have concluded that under certain circumstances — which are not entirely clear at the moment — it may be a violation of the competition laws for a holder of standard essential patents (SEPs) to seek an injunction against alleged infringers of those SEPs. In addition, U.S. agencies are exploring the competitive implications of nonpracticing entities seeking to monetize the patents they acquire.

Agencies' Message on Standard Essential Patents: Think Twice Before Seeking Injunctions

U.S. and European competition agencies have made it clear, in policy statements and enforcement actions, that holders of SEPs encumbered by a commitment to license on "fair, reasonable and nondiscriminatory" (FRAND) terms should think twice before seeking an injunction against alleged infringers of SEPs. Despite the right to exclude that is inherent in owning a patent, the agencies have construed a SEP holder's commitment to a standard setting organization to license on FRAND terms to be a voluntary relinquishment of its right to seek an injunction against a "willing licensee."

Although the titans of mobile communications have garnered the most attention over SEPs, we want to emphasize that these developments carry implications for any holder or potential licensee of a patent that is potentially essential to any standard, whether high-tech or low-tech, that are subject to FRAND-type licensing commitments.

On Jan. 3, 2013, the Federal Trade Commission reached a consent agreement with Google Inc. with regard to its Motorola Mobility unit seeking exclusion orders at the U.S. International Trade Commission and injunctions in federal court allegedly to enhance its bargaining leverage against "willing licensees" and to demand licensing royalties and terms that "tended to exceed the FRAND range."[1] The FTC had concluded that this conduct was a violation of Section 5 of the FTC Act, 15 U.S.C. § 45. The consent agreement bars Google from seeking an injunction or ITC exclusion order on a FRAND encumbered patent against a willing licensee unless the potential licensee:

> (1) is outside the jurisdiction of the U.S. federal courts;
> (2) has stated in "writing or in sworn testimony that it will not license the FRAND patent on any terms";
> (3) refuses to pay royalties after a court or arbitrator has determined that the requested royalties are FRAND;
> (4) fails to respond within 30 days of receiving a letter from Google offering a "binding irrevocable commitment to license" its SEPs on FRAND terms on the

condition that the potential licensee makes the same commitment; or
(5) has sought its own injunction against Google for infringement of the potential licensee's FRAND patents.

While "willing licensee" remains an undefined term, the above list of exceptions suggests the outlines of what the FTC considers to be a willing licensee. The Google consent is notable because the list of exceptions broadened beyond those in the consent agreement reached with Robert Bosch GbmH in November 2012.[2] Under that agreement, Bosch could pursue injunctive relief on certain SEPs only if a potential licensee "states in writing it will not license" under FRAND terms or refuses to pay royalties after a court or arbitrator has determined that the requested royalties are FRAND.

A third exception is if a court determines that the SEP was being used for a purpose other than as required to comply with the standard in question. Because it is unlikely that potential licensees will refuse outright to take a FRAND license, especially after going through an arbitration or judicial proceeding, Bosch would be precluded from seeking injunctive relief on these particular SEPs in almost all situations. It appears Google may have more room to seek an injunction, at least defensively, if it takes the position that a patent for which another company is suing Google for infringement may be essential to a standard (a fact that is not always clear).

The U.S. Department of Justice has not brought any enforcement actions to date, but on Jan. 8, 2013, the DOJ and the U.S. Patent and Trademark Office issued a joint statement setting forth principles for when injunctive relief may be appropriate in judicial proceedings or exclusion orders in investigations under Section 337 of the Tariff Act of 1930 before the ITC.[3] The agencies opined that injunctive relief may be an appropriate remedy where a potential licensee "refuses to pay what has been determined to be a F/RAND royalty, or refuses to engage in a negotiation to determine F/RAND terms," or is not subject to the jurisdiction of a court that could award damages.

Thus, to that extent, the DOJ and the FTC are consistent. Yet the statement also notes that a potential licensee's refusal "could take the form of a constructive refusal to negotiate, such as by insisting on terms clearly outside the bounds of what could reasonably be considered to be F/RAND terms." This highlights the fact that the dimensions of a FRAND term remain undefined in the law. However, a pending case between Microsoft and Motorola before a federal district court in Seattle could provide guidance on the scope of FRAND.[4]

What constitutes FRAND terms is critical. Although the FTC has indicated that it is not interested in defining what constitutes FRAND terms, it concluded that Google's demands "tended to exceed the FRAND range." How the FTC reached this conclusion is unstated, even though the basis for its conclusion could prove immensely valuable to licensors and licensees alike. Nonetheless, the settlements with Google and, to a lesser extent, Bosch promote a "process" by which parties can resolve FRAND disputes without resorting to litigating injunctive relief.

This process provides for binding arbitration or going to court for a determination of FRAND terms when the parties cannot agree on a FRAND license. The commission believes this process could serve as a "template for the resolution of SEP licensing disputes across many industries." This raises the question, if you seek an injunction without going through a similar dispute resolution process outlined in the Google consent, do you risk a Section 5 investigation or enforcement action?

The FTC's settlement with Google also is notable for explicitly including efforts to obtain an exclusion order from the ITC as a potential violation of Section 5. The commission, along with the DOJ, has encouraged the ITC to use its "public interest" test in its determinations as the basis for denying what had been, or at least perceived to be, easier-to-obtain exclusion orders. The DOJ, which cannot enforce Section 5, has been less aggressive on SEPs.

Part of this may be a function of the fact that federal court precedent requires some form of deception in the standard setting process to form the basis of unlawful conduct under Section 2 of the Sherman Act.[5] Under Section 5, the FTC has a freer hand to challenge "opportunistic behavior" that exploits the leverage afforded by having a patent essential to a standard. We wonder if courts will still require deception for a Section 2 claim or will move in the agencies' direction and consider "opportunistic conduct" to be sufficient under Section 2.

Not to be outdone by its U.S. counterparts, in late December the European Commission sent Samsung Electronics Co. Ltd. a statement of objections setting forth its preliminary view that Samsung's seeking of injunctions against Apple Inc. in various EU member states on the basis of certain 3G SEPs amounts to an abuse of a dominant position prohibited by European antitrust rules. Statements of objections are not made public, but according to a press release quoting EC competition head Joaquin Almunia, "the use of injunctions against willing licensees can be anti-competitive" when the patent holder has committed to license the SEP on FRAND terms.

Samsung's recent withdrawal of its injunction requests against Apple from a variety of European courts was not sufficient to forestall the EC action.[6] The EC action comes after several EU member state courts — in Germany, for example, based on the Orange Book Standard decision — already have taken the position that no injunction should be granted when the patent holder has committed to license on FRAND terms and a license fee is paid in escrow. Unlike in a FTC Section 5 action, the EC has the ability to fine Samsung for its past conduct.

Given the agencies' position on injunctive relief and the U.S. Supreme Court ruling in eBay Inc. v. MercExchange LLC, 547 U.S. 388 (2006), that a patent holder is not automatically entitled to an injunction against an alleged infringer, companies should carefully evaluate the benefits and risks of seeking an injunction to enforce a SEP right.

Patent Assertion Entity Activity and Patent Portfolio Acquisitions Under DOJ/FTC Microscope

The new year also will present the DOJ and FTC with an opportunity to weigh in on two growing phenomena: the role of patent assertion entities (PAEs) in enforcing patent rights and the acquisition of portfolios of patents, often jointly by competitors.

The FTC and DOJ have been monitoring the explosion in litigation brought by PAEs seeking to monetize patents through licensing demands and follow-on litigation. A joint agency workshop was held on Dec. 10, 2012, to explore the impact of PAE activity on competition and innovation. FTC Chairman Jon Leibowitz opened the workshop by citing studies indicating that PAEs brought nearly 40 percent of the over 4,000 patent lawsuits filed in 2011 and that PAEs cost defendants and licensees $29 billion in 2011.

While workshop participants universally recognized the growing role of PAEs in the patent marketplace, there was considerably less agreement on what, if anything, the enforcement agencies should do about PAE activity. The mere assertion of a patent right is not alone an antitrust violation, but panelists discussed situations that could trigger application of both Section 7 of the Clayton Act, which prohibits acquisitions that may substantially lessen competition, and Section 1 of the Sherman Act, which prohibits agreements in unreasonable restraint of trade. The agencies will be taking public comment on PAE activity until March 10, 2013.[7]

As if to underscore some of the issues raised in the workshop, it was disclosed days later that two participants in the workshop, Intellectual Ventures and RPX Corp., brought together two consortiums of technology companies — including mobile rivals Apple, Google, Microsoft Corp. and RIM — to facilitate the $525 million sale of a portfolio of over 1,000 digital imaging patents from Eastman Kodak Co.[8] In a separate transaction announced earlier this month, Unwired Planet plans to purchase 2,185 patents from Ericsson with the aim of monetizing those patents through a licensing strategy.

Given recent enforcement activities in this unsettled area of the law, parties involved in the transfer of patents portfolios, particularly if they include SEPs, and parties that are considering enforcing SEPs against competitors, need to be aware that their activities may catch the attention of the EC and the U.S. antitrust agencies in the year ahead.

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[1] A majority of the commissioners found Google’s conduct constituted “unfair methods of competition” and, in an expansion from another recent enforcement action, “unfair acts and practices” in violation of Section 5 of the FTC Act.

[2] In the Matter of Robert Bosch GmbH, Docket No. C-4377, available at http://www.ftc.gov/os/caselist/1210081/index.shtm. Patent enforcement conduct was examined within the context of Bosch’s $1 billion acquisition of SPX Service Solutions U.S. LLC. In addition to ordering a straight-forward divestiture to obtain clearance, the consent agreement targeted the pre-acquisition conduct of SPX. SPX participated in a standard setting organization for the operation of air conditioning servicing equipment and later sought injunctive relief against certain competitors for infringing its patents that may be essential to the practice of those standards even though the competitors were purported “willing licensees” of the SEPs. In addition to barring injunctions under most circumstances, the consent required Bosch to license the SEPs royalty-free. Although this requirement raised some eyebrows, it may be simply a product of the divestiture’s terms. The divestiture of Bosch’s AC servicing equipment business to Mahle Clevite Inc. included a royalty-free license of SEPs, and a royalty-free license to other competitors was deemed necessary to ensure that the merger remedy was not inequitable in application. This enforcement action suggests potential merger parties may wish to review their patent enforcement activity prior to finalizing a reportable merger or acquisition that involves the transfer of patents.

[3] USDOJ/USPTO, Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments, available at http://www.justice.gov/atr/public/guidelines/290994.pdf.

[4] Microsoft Corporation v. Motorola, Inc., No. 10-1823 (W.D. Wash.).

[5] See, e.g., Broadcom Corp. v. Qualcomm Inc., 501 F.3d 297 (3d Cir. 2007).

[6] FAQ on Statement of Objections: http://europa.eu/rapid/press-release_MEMO-12-1021_en.htm?locale=en.

[7] More information, including video recordings of the workshop, can be found at http://www.ftc.gov/opp/workshops/pae/.

[8] Other members of the consortium are Facebook, Amazon, FUJIFILM, Huawei Technologies, HTC, Samsung Electronics, Adobe Systems and Shutterfly.