

ANTITRUST TRADE AND PRACTICE

Expert Analysis

Setting the Standard For Product Innovation

In recent weeks the U.S. antitrust agencies have made clear their belief that 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 patents. Less than a week after the Federal Trade Commission (FTC) attempted to “set a template for the resolution of SEP licensing disputes” in its settlement with Google barring the patent holder from enforcing the exclusionary rights of its SEPs in certain circumstances, the Department of Justice, Antitrust Division expressed similar views.¹ On Jan. 8, the Justice Department issued an unusual joint policy statement with the U.S. Patent and Trademark office (USPTO) in which it urged the U.S. International Trade Commission (ITC) to avoid ordering injunctions in certain cases.²

The agencies have a long history of attempting to use their enforcement authority to police the licensing of SEPs (with varying degrees of success).³ However, these latest statements have taken the agencies’ attempts to regulate conduct a step further, and raise seri-



By
**Neal R.
Stoll**



And
**Shepard
Goldfein**

ous questions about how companies whose patents have been incorporated into industry standards will be allowed to enforce their intellectual property rights in the future. The agencies would be well-advised to provide clarity on their recent statements and to generally proceed with caution in this area as their policies could have dangerous long-term effects on investment in research and development, innovation and competition.

Rights and Enforcement

As we have previously discussed in this space, the patent system in the United States grants the holder of a valid patent a temporary exclusionary right in exchange for the public disclosure of the technology covered by the patent.⁴ This right gives a patent holder the ability to exclude others from making, using, offering for sale, selling or importing into the United

States the invention claimed in the patent.⁵ Granting an inventor a temporary monopoly over their invention allows them the ability to reap the economic benefits of their invention and encourages them to take risks and make investments in research and development in the first place. The development of new technologies and resulting dissemination of information that is a byproduct of this system benefits society as a whole.

In the United States, a patent owner has the ability to enforce its exclusionary right by seeking damages or an injunction against the alleged infringer in federal court. The owner may also seek an exclusion order from the ITC to prevent the importation into the United States of infringing products.⁶ In recent years, the threat of an exclusion order from the ITC has become an even more crucial tool for patent holders to enforce their rights, as owners have increasingly turned to the ITC to settle their disputes in the wake of a 2006 U.S. Supreme Court ruling that has made it harder to win injunctions in federal court.⁷

SSOs, SEPs and FRAND

It is not uncommon for today’s high-tech devices to be dependent on hundreds or even thousands of patented technologies. Often, the ultimate

NEAL R. STOLL and SHEPARD GOLDFEIN are partners at Skadden, Arps, Slate, Meagher & Flom. CHARLES CRANDALL is an associate at the firm, assisted with the preparation of this column.

manufacturer for a device owns only a piece of the technology and relies on numerous additional components and complementary technologies for its product. Interoperability is key for the development of these devices, and collaborative standards (or sets of technical specifications that provide a common design) have paved the way for innovative product development in a number of industries. These standards are sometimes set by government action or through operation of market forces, but frequently private industry groups called standard-setting organizations (SSOs) play an important role.

In order to combat the potential for owners of patents that are essential to an adopted standard (SEPs) to “hold up” (or demand higher royalties than would be possible in a traditional competitive process) manufacturers who may face prohibitively large switching costs as a result of implementing a standard, most SSOs require members to disclose all patents that are pertinent to a proposed standard and license patented technologies that are essential on fair, reasonable and non-discriminatory (FRAND) terms.⁸ The practice of requiring FRAND commitments attempts to both incentivize innovation, by allowing the holder of an SEP to recoup investments, and limit the opportunity for exploitative behavior on behalf of the SEP holder.

Agencies and Policing SEPs

Beginning in the mid-1990s the FTC brought a series of cases challenging patent owners who they alleged undermined the standard setting process, either through deceptive conduct prior to a patent’s adoption as part of an industry standard or by breaching agreements to license on FRAND terms.⁹ The FTC has challenged the behavior of SEP holders both with monopolization claims under Section

2 of the Sherman Act and under Section 5 of the FTC Act’s “unfairness” standard.¹⁰ However, in the only one of these cases to be tested in court, the FTC had a very visible failure making a Section 2 claim against Rambus Inc.¹¹ Post-*Rambus*, the FTC has relied more heavily on the “unfair method of competition” and “unfair act or practice” clauses of Section 5, under which it has a freer hand to challenge “opportunistic behavior” that exploits leverage afforded by having a patent essential to a standard.¹²

Placing restraints on the SEP owner’s ability to obtain an injunction may potentially tip the balance in favor of the infringer and create one-sided *ex ante* contractual commitments.

Historically, the Justice Department has been less aggressive as it relates to SEPs, allowing standard setters to develop and enforce FRAND commitments rather than using the antitrust laws to police the activity. Unlike the FTC, the Justice Department has not brought any SEP-related enforcement actions to date.¹³ However, several senior agency officials have recently opined on the role of antitrust enforcement with standards and standard setting,¹⁴ and the Justice Department has also actively investigated several large-scale patent acquisitions by technology firms with SEPs and the acquiring firms’ commitment to adhere to FRAND licenses in mind.¹⁵

Right to Injunctions

Thus far in 2013, the debate surrounding the agencies’ role in policing the licensing of SEPs has centered on the question of whether, and to what extent, the incorporation of

a patent into an industry standard should limit the SEP holder’s ability to obtain injunctive or exclusionary relief from federal courts or the ITC against alleged infringers.

The FTC recently used its Section 5 enforcement powers to bring a case against Google with regard to its Motorola Mobility unit seeking exclusion orders at the ITC and in federal court allegedly to enhance its bargaining leverage and demand licensing royalties and terms that “tended to exceed the FRAND range.”¹⁶ The Jan. 3, 2013, settlement of that case, which the FTC has said it hopes will “set a template for the resolution of SEP licensing disputes,” bars Google from seeking an injunction or ITC exclusion order on FRAND encumbered patents unless the potential licensee: (i) is outside the jurisdiction of the U.S. federal courts; (ii) has stated in “writing or in sworn testimony that it will not license the FRAND patent on any terms”; (iii) refuses to pay royalties after a court or arbitrator has determined that the requested royalties are FRAND; (iv) 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 (v) has sought its own injunction against Google for infringement of the potential licensee’s FRAND patents.¹⁷

On the heels of that settlement, the Justice Department and the USPTO issued a joint statement that could serve to similarly limit an SEP holder’s ability to obtain injunctive relief. The DOJ-USPTO statement attempts to discourage the ITC from banning imports of products based on SEPs. The statement argues that in many circumstances exclusion orders may be inconsistent with the public interest and sets forth principles for when injunctive relief may be appropriate

in judicial proceedings or exclusion order investigations.¹⁸

The DOJ and USPTO opined that injunctive relief may be an appropriate remedy where a potential licensee “refuses to pay what has been determined to be a FRAND royalty, or refuses to engage in a negotiation to determine FRAND terms,” or is not subject to the jurisdiction of a court that could award damages. 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 FRAND terms.”¹⁹

Despite the discussions in the Google consent and the DOJ-USPTO statement of circumstances under which the agencies believe injunctive relief may be appropriate against infringers of SEPs, standards remain unclear.

Despite the discussions in the Google consent and the DOJ-USPTO statement of circumstances under which the agencies believe injunctive relief may be appropriate against infringers of SEPs, standards remain unclear. In particular, the recent statements highlight the fact that the dimensions of a FRAND term remain undefined. What constitutes FRAND terms is critical, and although the FTC has indicated that it is not interested in defining what constitutes FRAND terms (and the Justice Department is similarly silent), 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.

Incentives to Innovate

Despite the right to exclude that is inherent in owning a patent, it appears the U.S. antitrust agencies have construed a SEP holder’s commitment to a SSO to license on FRAND terms to be, at least partially, a voluntary relinquishment of its right to seek an injunction. This is a dangerous trend.

In many cases seeking injunctions against infringers is not in conflict with SEP patentees’ obligations. Instead, the ability to obtain an injunction, or at least a realistic threat of injunction, advances the intent of SSO policies that encourage good-faith bilateral negotiations. The most powerful tool a patent holder has in dealing with someone who is infringing on a patent is to get an injunction blocking sales of the infringing product, and in order to receive an appropriate royalty, often a patent owner must turn to the courts or to the ITC. Placing restraints on the SEP owner’s ability to obtain an injunction may potentially tip the balance in favor of the infringer and create one-sided ex ante contractual commitments.

One must consider whether innovators would have any incentive to participate in an SSO if a significant enforcement tool were taken away. If the pendulum swings too far in one direction the diminished incentive to invest in research and development may dampen the type of innovation and competition that are essential to U.S. economic growth.

.....●.....

1. Jon Leibowitz, Chairman, Fed. Trade Comm’n, Opening Remarks of Fed. Trade Comm’n Chairman, as Prepared for Google Press Conference (Jan. 3, 2013), <http://www.ftc.gov/speeches/leibowitz/130103googleleibowitzremarks.pdf>; *In re Motorola Mobility & Google*, 121-0120, Decision and Order (F.T.C. Jan. 2, 2013), <http://www.ftc.gov/os/caselist/1210120/130103googlemotorolado.pdf>.

2. U.S. Dept. of Justice and U.S. Patent and Trademark Office, Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary FRAND Commitments (Jan. 8, 2013) (hereinafter DOJ-USPTO Joint Policy Statement), <http://www.justice.gov/atr/public/guidelines/290994.pdf>.

3. See *In re Dell Computer*, 121 F.T.C. 616 (1996); *In re Union Oil of Cal.*, 2004 F.T.C. LEXIS 115 (July 7, 2004); *In re Rambus*, No. 9302, 2006 F.T.C. LEXIS 101 (Aug. 20, 2006), rev’d, *Rambus v. F.T.C.*, 522 F.3d 456 (D.C. Cir. 2008); *In re Negotiated Data Solu-*

tions, 051-0094, Decision and Order (F.T.C. Jan. 23, 2008), <http://www.ftc.gov/os/caselist/0510094/080122do.pdf>; *In re Robert Bosch GmbH*, 121-0081, Decision and Order (F.T.C. Nov. 26, 2012), <http://www.ftc.gov/os/caselist/1210081/121126boschdo.pdf>; see also, Press Release, Dept. of Justice, Antitrust Div., Statement of the Department of Justice’s Antitrust Division on its Decision to Close its Investigations of Google Inc.’s Acquisition of Motorola Mobility Holdings Inc. and the Acquisitions of Certain Patents by Apple Inc., Microsoft Corp., and Research in Motion Ltd. (Feb. 13, 2012), http://www.justice.gov/atr/public/press_releases/2012/280190.htm.

4. Neal R. Stoll and Shepard Goldfein, “Patent Antitrust Equilibrium—A Quintessential Type 1 Error,” *New York Law Journal*, Vol. 246, No. 93, Nov. 13, 2012, <http://www.skadden.com/sites/default/files/publications/070111209%20Skadden.pdf>.

5. 35 U.S.C. §154(a)(1).

6. 19 U.S.C. §1337. Patent holders can pursue an ITC case in parallel with civil lawsuits.

7. *eBay v. MercExchange*, 547 U.S. 388 (2006).

8. Some SSOs use reasonable and non-discriminatory (RAND), and others use FRAND. Here we use FRAND to refer to both types of licensing commitments.

9. See *In re Dell Computer*, 121 F.T.C. 616 (1996); *In re Union Oil of Cal.*, 2004 F.T.C. LEXIS 115 (July 7, 2004); *In re Rambus*, 2006 F.T.C. LEXIS 101; *In re Negotiated Data Solutions*, supra n.3.

10. 15 U.S.C. §2; 15 U.S.C. §45.

11. *Rambus v. F.T.C.*, 522 F.3d 456 (D.C. Cir. 2008) (some form of deception in the standard setting is required in order to support a monopolization claim under Section 2 and that deception must have an anticompetitive effect).

12. See *In re Negotiated Data Solutions*, supra n.3 (finding that an attempt to re-negotiate royalty rates for SEPs and threats to initiate legal actions against companies refusing to pay royalty demands by a purchaser of SEPs harmed consumers and constituted both an “unfair method of competition” and an “unfair act” under Section 5 despite the fact that the purchaser had not participated in the standard setting process).

13. Part of this is likely a function of the difficulty in successfully bringing a Section 2 monopolization claim in the SSO context (the Justice Department does not have the more expansive Section 5 at its disposal).

14. See, e.g., Fiona M. Scott-Morton, Deputy Assistant Attorney Gen. for Econ. Analysis, Antitrust Div., U.S. Dept. of Justice, The Role of Standards in the Current Patent Wars, Presented at Charles River Associates Annual Brussels Conference: Economic Developments in European Competition Policy, Brussels, Belgium (Dec. 5, 2012), <http://www.justice.gov/atr/public/speeches/289708.pdf>; Renata Hesse, Deputy Assistant Attorney Gen., Antitrust Div., U.S. Dept. of Justice, the Antitrust Division and SSOs: Continuing the Dialogue, Remarks as Prepared for the ANSI Intellectual Property Rights Policy Committee Meeting, Washington, D.C. (Nov. 8, 2012), <http://www.justice.gov/atr/public/speeches/288580.pdf>; Renata Hesse, Deputy Assistant Attorney Gen., Antitrust Div., U.S. Dept. of Justice, Six “Small” Proposals for SSOs before Lunch, Remarks as Prepared for the ITU-T Patent Roundtable (Oct. 10, 2012), <http://www.justice.gov/atr/public/speeches/287855.pdf>; Joseph Wayland, Acting Assistant Attorney Gen., Antitrust Div., U.S. Dept. of Justice, Antitrust Policy in the Information Age: Protecting Innovation and Competition, Remarks as Prepared for the Fordham Competition Law Institute, N.Y.C. (Sept. 21, 2012), <http://www.justice.gov/atr/public/speeches/287215.pdf>.

15. Press Release, supra n.3.

16. *In re Motorola Mobility, & Google*, supra n.1.

17. *Id.*

18. DOJ-USPTO Joint Policy Statement, supra n.2.

19. *Id.*