New York Law Journal
SERVING THE BENCH AND BAR SINCE 1888
WWW.NYLJ.COM
An ALM Publication
VOLUME 250—NO. 70
TUESDAY, OCTOBER 8, 2013

ANTITRUST TRADE AND PRACTICE

Expert Analysis

FTC Commissioners Divided on Effect Of Seeking Injunctions Over Patents

By **Shepard Goldfein**

And **James Keyte**

As we have previously addressed, the Federal Trade Commission (FTC) and Department of Justice, Antitrust Division have demonstrated an increasing appetite for scrutinizing disputes involving standard essential patent (SEP) holders.[1] In the last year, both agencies have been particularly hawkish with respect to limiting SEP holders' rights to seek injunctive relief against alleged patent violators.[2] In our earlier article, we cautioned that the agencies should proceed carefully in this arena given the potential deterrence of innovation and competition, and we suggested that the agencies create clear standards as to when SEP holders risk violating the antitrust laws by seeking injunctive relief.[3] And, in fact, the agencies have since stepped up their rhetoric with respect to limiting SEP holders' ability to seek injunctive relief, leading many to perceive an inexorable march toward greater antitrust involvement in the patent arena.[4] However, recent statements from FTC Commissioner Joshua Wright suggest that antitrust officials may not be as aligned on the issue as it previously appeared.

In his statement, Wright observed that "the antitrust laws are not well suited to govern contract disputes between private parties,"[5] which stands in stark contrast to recent statements by other U.S. antitrust officials. In addition, previous statements by both Wright and Commissioner Maureen Ohlhausen suggest that the FTC is ideologically split on the question of whether SEP holders violate the antitrust laws merely by seeking injunctive relief against alleged patent violators. This split has significant potential ramifications for near-term enforcement efforts, and it poses significant questions regarding long-term policies ahead of the pending confirmation of Terrell McSweeny to fill the fifth commissioner's seat.

SEPs, SSOs, Antitrust Agencies

An SEP is a patent that has been adopted as an established standard in a particular industry, most commonly by a private industry group known as a standard-setting organization (SSO), which is comprised of industry participants. Standard setting is particularly common in high-tech industries such as cellular phones or other communication devices that must rely on standardized technology (e.g., 4G cellular technology). In exchange for having its patented technology included in the industry standard, an SEP holder typically must agree to license the SEP technology to other SSO members on fair, reasonable and nondiscriminatory (FRAND) terms.[6]

These FRAND requirements, and other contractual terms to which the SEP holder is bound, are intended to guard against the risk of "patent hold-ups," where an SEP holder leverages its inclusion in the industry standard—and the resulting increased need for its SEP by other industry participants—to extract higher royalties from licensees than otherwise would prevail in a competitive market. In instances where a licensee refuses to pay the higher royalty, the SEP holder may petition the courts or the U.S. International Trade Commission (ITC) for an injunction based on its rights as a patent holder.[7]

In the last 20 years, the FTC has brought a number of enforcement actions against SEP holders that allegedly engaged in a patent hold-up.[8] In these cases, the FTC primarily relied on Section 5 of the FTC Act's prohibition on "unfair or deceptive acts or practices" to police SEP holders that allegedly engaged in deceptive conduct or breached agreements to license on FRAND terms. However, in two recent cases, *In re Robert Bosch* and *In re Motorola Mobility and Google*, the FTC adopted a novel enforcement approach based on its contention that an SEP holder may violate the antitrust laws merely by seeking injunctive relief.[9] This theory of harm is based on the premise that the threat of an injunction is enough to force a potential licensee to capitulate to non-FRAND terms, and thus, it amounts to either an unfair business practice under Section 5 of the FTC Act or an unlawful

SHEPARD GOLDFEIN *and* JAMES KEYTE *are partners at Skadden, Arps, Slate, Meagher & Flom.* MICHAEL SHEERIN, *an associate at the firm, assisted with the preparation of this column.*

exercise of market power under Section 2 of the Sherman Act.

For instance, in its consent agreement in *Motorola*, the FTC greatly restricted the circumstances in which Google may seek an injunction or ITC exclusion order against a potential licensee of certain SEPs, arguing that "the threat of injunctive relief… harm[s] incentives for the development of standard-compliant products, [and can] lead to excessive royalties that may be passed along to consumers in the form of higher prices."[10] That consent was quickly followed by a rare joint statement from the Justice Department and U.S. Patent and Trademark Office, which urged the ITC to exercise caution in ordering injunctions.[11]

Following *Bosch*, *Motorola* and the Justice Department-USPTO Joint Policy Statement, the agencies' intent to limit the availability of injunctive relief to SEP holders seemed clear, even if the standards for doing so were not.

Calls for Restricting Access

In February 2013, Justice Department Deputy Assistant Attorney General for Criminal and Civil Operations, Renata Hesse, promised that "[t]he division will stay active in the promotion of competition even when patents are at issue, both by enforcing our antitrust laws where appropriate and providing guidance to the bar, industry, and other agencies and organizations."[12] In particular, Hesse expressed the Justice Department's interest in "limiting injunction actions," and she suggested that an SEP holder exercises its "monopoly power" in violation of Section 2 merely by seeking injunctive relief.[13]

In March, Howard Shelanski, Fiona Scott Morton and Kai-Uwe Kuhn—then-chief economists at the FTC, Justice Department and European Commission, respectively—published a policy paper suggesting guidelines for SSOs to adopt in order to strengthen their licensing policies for SEPs.[14] The paper echoed the agencies' earlier calls for significant restrictions on circumstances in which an SEP holder may seek injunctive relief against potential licensees.[15] While the economists were ostensibly writing in their individual capacity, their statement that "SSO policies are not strong or clear enough"[16] to prevent SEP holders from engaging in hold-ups was consistent with previously expressed positions by their respective agencies.

> It is becoming increasingly clear that the commissioners are split with respect to whether an SEP holder can violate the antitrust laws merely by seeking injunctive relief.

Most recently, on July 30, 2013, Suzanne Munck, Chief Counsel for Intellectual Property for the FTC and Deputy Director of the FTC's Office of Policy and Planning, testified before the Senate regarding the role of antitrust law in SEP disputes.[17] In her speech, Munck touted recent enforcement actions by the FTC and emphasized the perceived threat from SEP holders' ability to seek an injunction or exclusion order against potential licensees.[18] Munck concluded her remarks by vowing that "[t]he Commission will continue to advocate before the federal courts and the ITC for policies that mitigate the potential for patent hold-up, and will bring enforcement actions where appropriate."[19]

An Apparent Split at the FTC

Despite this relentless public push for increased antitrust enforcement in the patent arena by past and current antitrust officials, a significant split between the commissioners has quietly emerged at the FTC. The first clear sign of a division came in *Motorola*; yet, there, the ideological split that occurred on the wisdom of the consent decree with Google largely went unnoticed in light of the FTC's much-ballyhooed decision to conclude its investigation into Google's search practices.

In her dissenting opinion in *Motorola*, Commissioner Ohlhausen noted her reservations with "imposing liability on an owner of [an SEP] merely for petitioning the courts or the [ITC]."[20] Ohlhausen, in addition to other reasons, dissented "because I question whether such conduct, standing alone, violates Section 5 and because the *Noerr-Pennington* doctrine precludes Section 5 liability for conduct grounded in the legitimate pursuit of an injunction."[21]

These comments echoed her similar dissent in *Bosch*, where she stated that "[s]imply seeking injunctive relief on a patent subject to a [FRAND] license, without more, even if such relief could be construed as a breach of a licensing commitment, should not be deemed either an unfair method of competition or an unfair act or practice under Section 5."[22] Despite Ohlhausen's reservations in *Motorola*, the FTC voted to approve the Complaint and Order.[23]

On Sept. 12, Commissioner Wright took a more direct approach when he criticized "policymakers and academics [that] have developed strong [assumptions] that SSO contracts are inherently inefficient"[24] and "former and current officials from each [antitrust agency that] have suggested reforms to SSOs [intellectual property rights] policies including…commitments that specify…the processes parties must adhere to in resolving F/RAND rate disputes."[25] Wright noted the potential anticompetitive threats from stricter SSO terms and, in particular, noted that "it is well understood that weakening the availability of injunctive relief for infringement…may…weaken any incentives implementers have to engage in good faith negotiations with the patent holder."[26]

Wright further criticized attempts to limit access to injunctive relief by finding "dubious" the assumption that the "primary purpose of injunctive relief is to allow patent holders to threaten to exclude a product from the market, and thus enable extraction of royalties above the F/RAND rate."[27] Instead, Wright argued, guidelines established by SSOs and principles of contract law were adequate and preferable means to govern SEP disputes.

While these comments represent Wright's first direct foray into the SEP enforcement debate, they are generally consistent with his earlier stated position that the FTC requires "standards and limits [that] we can

impose upon the Commission's [Section 5] authority."[28] Notably, Ohlhausen recently expressed similar beliefs with respect to the scope of the FTC's enforcement power under Section 5.[29]

A split at the FTC could shift the overall tide in the antitrust enforcement community with respect to the suitability of antitrust law for settling patent disputes, as despite public saber rattling for increased enforcement, the Justice Department has yet to bring an enforcement action in this arena.

Looking Forward

While both Ohlhausen and Wright believe that antitrust has a place in patent regulation,[30] it is becoming increasingly clear that the commissioners are split with respect to whether an SEP holder can violate the antitrust laws merely by seeking injunctive relief. A split among the commissioners is not rare, but in this instance, it has significant ramifications for the FTC's enforcement with respect to SEP holders' rights to injunctive relief given the lack of a tie-breaking vote. Under current conditions, the outcome in a case similar to *Bosch* or *Motorola* could have been quite different, perhaps with the FTC electing not to become involved, and almost certainly with respect to the limits on Google's ability to seek injunctive relief. In addition, a split at the FTC could shift the overall tide in the antitrust enforcement community with respect to the suitability of antitrust law for settling patent disputes, as despite public saber rattling for increased enforcement, the Justice Department has yet to bring an enforcement action in this arena.

In light of the current dynamic at the FTC, the pending confirmation of Terrell McSweeny takes on significant meaning for SEP holders and other participants in the standard setting arena. To date, McSweeny's stance on the issue is unknown, but, if confirmed, it likely will not be long before the antitrust and patent communities have an opportunity to see where McSweeny—and the FTC—stand on the injunctive relief question.

Conclusion

In general, there is much to be said for Wright's view that "[w]here antitrust laws can and should come into play is when participants abuse and manipulate the standard setting process to exclude competitors from the market. The existing antitrust laws already deal with these types of collusive manipulations of the standard setting process."[31] And, as a function of Wright's and Ohlhausen's shared concerns, the FTC is likely to take a more cautious approach to the injunctive relief issue than it has previously advertised. However, regardless of whether the FTC continues its aggressive stance with respect to injunctive relief, the FTC needs to establish some standard on the issue in order to avoid creating confusion among patent holders, preventing innovation and harming competition.

1. Neal R. Stoll and Shepard Goldfein, Setting the Standard for Product Innovation, NYLJ, Vol 249, No. 28 (Feb. 11, 2013), available at http://www.skadden.com/sites/default/files/publications/Setting_the_Standard_For_Product_Innovation.pdf.

2. See *In re Robert Bosch*, No. 121-0081, Decision and Order (F.T.C. Nov. 26, 2012), http://www.ftc.gov/os/caselist/1210081/121126boschdo.pdf; *In re Motorola Mobility and Google*, No. 121-0120, Statement of the Commission (F.T.C. Jan. 3, 2013), http://www.ftc.gov/os/caselist/1210120/130103googlemotorolastmtofcomm.pdf.

3. Stoll and Goldfein, supra note 1.

4. See, e.g., Sharis Pozen, Antitrust Agencies Will Remain Focused on Patent Conduct, Law360 (Feb. 4, 2013, 12:01 PM), http://www.law360.com/articles/411620/antitrust-agencies-will-remain-focused-on-patent-conduct.

5. Wright, Commissioner, FTC, SSOs, FRAND and Antitrust: Lessons from the Economics of Incomplete Contracts, Address at the Center for Intellectual Property Inaugural Academic Conference: The Commercial Function of Patents in Today's Innovation Economy, George Mason University School of Law, Arlington, Va. (Sept. 12, 2013), at 32, available at http://www.ftc.gov/speeches/wright/130912cpip.pdf.

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

7. 35 U.S.C. §154(a)(1) (right for patent holder to exclude others); 19 U.S.C. § 1337 (patent holders can pursue an ITC case in parallel with civil lawsuits).

8. See *In re Dell Computer*, 121 F.T.C. 616 (1996); *In re Union Oil of Cal.*, 138 F.T.C. 1 (2004); *In re Rambus*, No. 9302, 2006 F.T.C. LEXIS 101 (F.T.C. Aug. 20, 2006); *In re Negotiated Data Solutions*, Complaint (F.T.C. Sept. 23, 2008), http://www.ftc.gov/os/caselist/0510094/080923ndscomplaint.pdf.

9. See *In re Robert Bosch*, supra note 2, Complaint at 4-5, http://www.ftc.gov/os/caselist/1210081/121126boschcmpt.pdf; *In re Motorola*, supra note 2, Complaint at 1, http://www.ftc.gov/os/caselist/1210120/130103googlemotorolacmpt.pdf.

10. *In re Motorola*, supra note 2, Statement of the Commission at 2 , http://www.ftc.gov/os/caselist/1210120/130103googlemotorolastmtofcomm.pdf.

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

12. Renata Hesse, Deputy Assistant Attorney General for Criminal and Civil Operations at Dept. of Justice, Antitrust Division, IP, Antitrust and Looking Back on the Last Four Years, Address at the Global Competition Review 2nd Annual Antitrust Law Leaders Forum, Miami, Fl. (Feb. 8, 2013), at 14, available at http://www.justice.gov/atr/public/speeches/292573.pdf.

13. Id. at 19. Hesse very recently reaffirmed her belief in the potential vitality of Section 2 as an enforcement mechanism in the patent space. See Ron Knox, Hesse Suggests Antitrust Could Be Useful in Addressing Patent Abuses, GCR?US Ed. (Sept. 26, 2013), http://globalcompetitionreview.com/news/article/34237/hesse-suggests-antitrust-useful-addressing-patent-abuses/.

14. Kai-Uwe Kuhn, Fiona Scott Morton & Howard Shelanski, Standard Setting Organizations Can Help Solve the Standard Essential Patents Licensing Problem, CPI Antitrust Chronicle, March 2013 (Special Issue), available at https://www.competitionpolicyinternational.com/assets/Free/ScottMortonetalMar-13Special.pdf.

15. See id. at 4 ("The F/RAND commitment should include a process that SEP owners must follow before they can seek an injunction or exclusion order by the licensor").

16. Id.

17. See Prepared Statement of the FTC before the U.S. Senate Comm. on the Judiciary, Subcommm. on Antitrust, Competition Policy and Consumer Rights Concerning "Standard Essential Patent Disputes and Antitrust Law" (July 30, 2013), available at http://www.ftc.gov/os/testimony/113hearings/130730standardessentialpatents.pdf.

18. See id. at 7-9.

19. Id. at 12.

20. *In re Motorola*, supra note 2, Dissenting Statement of Commissioner Ohlhausen at 1, http://www.ftc.gov/os/caselist/1210120/130103googlemotorolaohlhausenstmt.pdf.

21. Id. (footnotes omitted).

22. *In re Bosch*, supra note 2, Statement of Commissioner Ohlhausen at 1, http://www.ftc.gov/os/caselist/1210081/121126boschohlhausenstatement.pdf (citations omitted).

23. Then-Commissioner J. Thomas Rosch echoed similar concerns to Ohlhausen but, nevertheless, voted to approve the consent decree. See *In re Motorola*, supra note 2, Separate Statement of Commissioner Rosch, http://www.ftc.gov/os/caselist/1210120/130103googlemotorolaroschstmt.pdf.

24. Wright, supra note 5, at 3.

25. Id. at 13.

26. Id. at 29.

27. Id.

28. Wright, Commissioner, FTC, Section 5 Recast: Defining the Federal Trade Commission's Unfair Methods of Competition Authority, Remarks at the Executive Committee Meeting of the New York State Bar Association's Antitrust Section, New York, N.Y. (June 19, 2013), at 27, available at http://www.ftc.gov/speeches/wright/130619section5recast.pdf.

29. See Maureen K. Ohlhausen, Section 5: Principles of Navigation, Remarks at the U.S. Chamber of Commerce, Washington, D.C. (July 25, 2013), available at http://www.ftc.gov/speeches/ohlhausen/130725section5speech.pdf.

30. See Wright, supra note 5, at 33 ("Antitrust enforcement remains available in cases of true anticompetitive price-fixing or deceptively manipulating standards"); *In re Bosch*, supra note 2, Statement of Commissioner Ohlhausen at 2 ("I agree that the FTC is well positioned to offer its views and to advocate on the important issue of patent hold-up using its policy tools."), http://www.ftc.gov/os/caselist/1210081/121126boschohlhausenstatement.pdf.

31. Wright, supra note 5, at 24 (citations omitted).