

Antitrust Trade and Practice

Expert Analysis

Enforcers Vow Continued Vigilance In Policing Certain Patent Hold-Ups

As we have previously addressed, the Federal Trade Commission (FTC) and the Department of Justice, Antitrust Division, have recently expanded their roles in regulating collaborative standard setting and policing disputes involving holders of standard essential patents (SEPs).¹ In our most recent article on this topic, we examined the FTC's controversial enforcement approach in two cases involving alleged patent hold-ups, *In re Robert Bosch GmbH*² and *In re Motorola Mobility*,³ and the divide between the commissioners as to whether an SEP holder could violate the antitrust laws merely by seeking injunctive relief.

At that time, we observed that this divide created uncertainty with respect to the antitrust risks facing SEP holders, and we advocated for the agencies to provide guidance on enforcement policy.⁴ In a speech last month, Assistant Attorney General Bill Baer echoed this need for clarity, recognizing that "competition agencies need to be prepared to give guidance to standard setting organizations (SSOs) on what ex ante rules can legitimately address concerns with patent hold-up without risking antitrust challenge."⁵

While he did not promise any formal guidance, his remarks provided a comprehensive assessment of Justice Department policy and help to delineate the circumstances in which the Justice Department is likely to get involved in SEP disputes. Specifically, he endorsed the view that an SEP holder may violate the antitrust laws by seeking to evade its licensing commitments, while recognizing that the agencies should not play a role in setting royalty rates.

Importantly, the Justice Department's policies in this area align with the FTC's approach in *Bosch* and *Motorola* and are consistent with the views expressed by FTC Chairwoman Edith Ramirez last year.⁶ While many may bemoan the agencies'



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restrictive view of an SEP holder's right to seek injunctive relief, this additional clarity should at least allow would-be SEP holders to proceed with a better understanding of the antitrust implications of having their technology designated as an industry standard.

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Industry Standard

An SEP is a patent that has been adopted as a standard in a particular industry, most commonly by a private industry group known as a standard setting organization (SSO). Standard setting is particularly common in high-tech industries that rely on standardized technology (e.g., 4G for cellular phones). Patent holders are incentivized to have their technology adopted as the standard because it creates immediate licensing demand from other industry participants.

In order to incentivize others to adopt that standard, SSOs typically require commitments from the SEP holder to license the technology on fair, reasonable and nondiscriminatory (FRAND) terms. FRAND requirements also help guard against the risk of so-called "patent hold-ups," where an SEP holder leverages its designation as

the industry standard to extract higher royalties than otherwise would prevail in a competitive market. Despite FRAND commitments, disputes between SEP holders and potential implementers regarding royalty rates do occur, and SEP holders in some circumstances may petition the courts or the U.S. International Trade Commission (ITC) for an injunction to prevent the potential implementer from using the patented technology.

History of Enforcement

The antitrust agencies' involvement in patent hold-up disputes traditionally had been limited to circumstances in which an SEP holder was alleged to have engaged in deceptive conduct.⁷ In *Bosch* and *Motorola*, however, the FTC took the position that SEP holders in both cases had violated Section 5 of the FTC Act by using the threat of an injunction to force licensees to pay higher royalty rates.⁸ The FTC entered into consent decrees in both cases that, inter alia, required the SEP holders to resolve licensing disputes before a neutral third party prior to seeking an injunction.

While many, including the Justice Department,⁹ endorsed the FTC's approach, the FTC commissioners split on the propriety of the consents, as Chairwoman Ramirez and Commissioner Julie Brill voted to accept the consent decrees, while Commissioner Maureen Ohlhausen dissented in both cases. Moreover, now former Commissioner Joshua Wright—who did not participate in either case—has been the most forceful and relentless critic of the application of antitrust sanctions in this area.

Most recently, in an article last October, Wright—joined by Judge Douglas H. Ginsburg of the U.S. Court of Appeals for the D.C. Circuit—penned a strong critique of the arguments in favor of antitrust liability for SEP holders who seek injunctions, arguing that such an approach is unnecessary, inappropriate and potentially harmful.¹⁰ Since the decisions in *Bosch* and *Motorola*, however, neither agency has pursued a formal enforcement action in this area, leaving some uncertainty as to how both agencies would approach similar future circumstances.

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Updated Guidance

Although neither agency has issued formal guidance, the heads of both agencies have since sought to clarify enforcement policy in this area. Indeed, despite strong criticism, both Assistant Attorney General Baer and Ramirez are resolute that both agencies have an important role to play in the patent arena and, in particular, in policing alleged patent hold-ups.

In remarks last September, Ramirez specifically targeted patent hold-ups as an area for close antitrust scrutiny because “the risk of patent [hold-ups] creates the type of competitive harm that falls properly within the scope of antitrust enforcement.”¹¹ Ramirez also praised the consent decree in *Motorola*, and, in particular, the restrictions imposed on Google’s right to seek injunctive relief as an effective means to prevent the “undue leverage [on the part of the SEP holder] that is the source of the competitive problem in the standard-setting context.”¹²

Most notably, however, Ramirez left little doubt as to the precedential value of the *Motorola* decree, cautioning that “[w]hile the order applies only to Google, the broad principles embodied in the order provide a roadmap for the parties that want to avoid FTC scrutiny to follow under similar circumstances.” While Ramirez alone cannot create FTC policy, there is little doubt that both Commissioners Brill and Terrell McSweeney share her views, providing her the majority required to further pursue this enforcement theory. Moreover, Wright’s recent departure from the FTC means the loss of Ramirez’s most vocal opponent at the FTC and leaves Ohlhausen as the only likely voice of dissent.

Assistant Attorney General Baer has also given every indication that the Justice Department will continue to look closely at SEP holders that “make[] and then later seek[] to evade the voluntary licensing commitments designed by SSOs to constrain th[e] exercise of market power.”¹³ Indeed, in his speech last month, Baer stated “[h]old-up concerns are real” and “the competitive process suffers” when an SEP holder attempts to evade FRAND commitments.

In order to address these concerns, he advocated an approach where “avenues of exclusion are appropriately tailored to the F/RAND commitment.”¹⁴ As an example of how this might be achieved by an SSO, Baer pointed to the Justice Department’s recent Business Review Letter to the Institute of Electrical and Electronics Engineers (IEEE), in which the department stated it would not challenge proposed updates to the IEEE’s licensing commitments, which included a prohibition on an SEP holder’s right to seek injunctive relief unless a potential licensee had failed to comply with licensing terms that had been sanctioned by a third party.

Deputy Assistant Attorney General Renata Hesse, who penned the letter, strongly endorsed the IEEE’s updated policies and, in particular,

praised the proposed injunction prohibition as “consistent with the direction of U.S. case law” and “further[ing] the procompetitive goal of providing greater clarity regarding the IEEE RAND Commitment concerning the availability of prohibitive orders...”¹⁵ While the Business Review Letter is not a policy statement, Hesse’s and Baer’s praise for a prohibition that closely adheres to the restrictions set forth in *Bosch* and *Motorola* provides additional confirmation of the narrow circumstances in which both agencies believe an SEP holder may seek injunctive relief.

Notably, both Baer and Ramirez have also recognized that their policy views closely align with those recently set forth by the European Commission (EC).¹⁶ In similar cases involving alleged patent hold-ups, the EC required the SEP holder to resolve disputes with potential licensees before a court or neutral third party prior to seeking injunctive relief. Both Baer and Ramirez praised this approach, highlighting the uniformity of the approach at their agency and in the EC as evidence of sound enforcement policy.

Conclusion

In our last article on this topic, we were concerned that the lack of formal guidance from the agencies with respect to alleged patent hold-ups created significant uncertainty for patent holders when weighing the benefits and detriments of becoming an industry standard. In addition, given that disputes arising from standard setting often can extend across multiple jurisdictions, the alignment of both agencies’ enforcement policies in this area with those of the EC should provide some welcome predictability.

While SEP holders may not be pleased with the position that both agencies and the EC have adopted, we can at least say that uncertainty no longer rules the day. As it is, all of the available guidance makes it clear that SEP holders face significant antitrust enforcement risk merely by threatening to seek an injunction prior to attempting to resolve a dispute before a court or other neutral third party. Under this approach, an SEP holder’s only available legal recourse in a dispute with a potential licensee would be to litigate the terms of the license rather than the licensee’s right to use the technology. Accordingly, would-be SEP holders should consider the potentially significant implications of effectively waiving their right to injunctive relief as a condition to having their technology designated an industry standard.

While the agencies’ enthusiasm for continued enforcement in the patent arena may cause continued concern for many, it should come as a relief to many that neither agency appears eager to regulate disputes involving royalty rates. Indeed, while advocating enforcement in the event of alleged patent hold-ups, Chairwoman Ramirez appears to agree with Assistant

Attorney General Baer’s view that the agencies should not extend their reach to disputes over appropriate royalties, recognizing that “royalty rates should not be negotiated under the threat of antitrust liability.”¹⁷ For now, those fearful of continued antitrust encroachment into the world of standard setting should at least take solace in Baer’s unequivocal statement that “[w]e don’t use antitrust enforcement to regulate royalties.”¹⁸

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1. See Shepard Goldfein and James A. Keyte, “FTC Divided on Effect of Seeking Injunctions Over Patents,” N.Y.L.J., Vol. 250, No. 70 (Oct. 8, 2013), reprint available at <http://www.skadden.com/insights/ftc-commissioners-divided-effect-seeking-injunctions-over-patents>; Neal R. Stoll and Shepard Goldfein, “Setting the Standard for Product Innovation,” N.Y.L.J., 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. *In re Robert Bosch GmbH*, 155 F.T.C. 713 (2013).

3. *In re Motorola Mobility*, 156 F.T.C. 147 (2013).

4. See Goldfein and Keyte, *supra* note 1, at 3.

5. William Baer, Assistant Att’y Gen., U.S. Dept. of Justice, Antitrust Div., Remarks at the 19th Annual International Bar Association Competition Conference (Sept. 11, 2015), available at <http://www.justice.gov/opa/speech/assistant-attorney-general-bill-baer-delivers-remarks-19th-annual-international-bar>.

6. See Edith Ramirez, Chairwoman, Fed. Trade Comm’n, Standard-Essential Patents and Licensing: An Antitrust Enforcement Perspective, Address at the 8th Annual Global Antitrust Enforcement Symposium, Georgetown University Law Center, Washington, D.C. (Sept. 10, 2014), available at https://www.ftc.gov/system/files/documents/public_statements/582451/140915georgetownlaw.pdf.

7. See *In re Dell Computer Corp.*, 121 F.T.C. 616, 623-34 (1996); *In re Union Oil Co. of Cal.*, 138 F.T.C. 1, 24 (2004); *In re Negotiated Data Solutions*, Complaint (F.T.C. Sept. 23, 2008), No. C-4234, 2008 WL 4407246, at *2-6 (F.T.C. Sept. 22, 2008).

8. See *In re Robert Bosch GmbH*, 155 F.T.C. 713, 829 (2013); *In re Motorola Mobility*, 156 F.T.C. 147, 155 (2013).

9. 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), available at <http://www.justice.gov/sites/default/files.atr.legacy/2014/09/18/290994.pdf>.

10. See Douglas H. Ginsburg, Taylor M. Owings, and Joshua D. Wright, “Enjoining Injunctions: The Case Against Antitrust Liability for Standard Essential Patent Holders Who Seek Injunctions,” Antitrust Source, Oct. 2014, available at http://www.americanbar.org/content/dam/aba/publishing/antitrust_source/oct14_full_source_authcheckdam.pdf.

11. Ramirez, *supra* note 3, at 7.

12. *Id.* at 6-7.

13. Baer, *supra* note 2.

14. *Id.*

15. Ins. Of Elec. & Elec. Eng’rs, Inc., U.S. Dep’t of Justice, Antitrust, Div., Business Review Letter at 11 (Feb. 2, 2015), available at <http://www.justice.gov/atr/public/busreview/311470.htm>.

16. See Baer, *supra* note 2; Ramirez, *supra* note 3, at 8.

17. Ramirez, *supra* note 3, at 9.

18. Baer, *supra* note 2.