USA and Europe: Standard Essential Patents and Antitrust

Standard essential patents (SEPs) are patents that are necessary (or have been declared essential) to a particular technology that is standardized to promote interoperability between devices or networks. Some standard setting efforts, such as the standards that enable wireless communications and Wi-Fi networking, involve hundreds or even thousands of such patents. Standards that incorporate patented technologies are the backbone of rapidly expanding worldwide markets in the information and communications technology (ICT) sector, which have nearly tripled in size since 2009. This has led to a proliferation of SEPs in the standards that are crucial to the ICT sector, such as wireless communication protocols like Long Term Evolution (LTE).

Creating a standard usually requires the standard setting organization (SSO) to choose among competing technologies. Once the standard is set, the industry may be locked into that method of doing things for an extended period of time, particularly if the industry exhibits significant network effects (i.e., every user is better off if more other users are on the same network or use a compatible device) and path dependency (i.e., each generation of the technology builds on the previous one). Therefore, when an SSO incorporates a patented technology into a standard, the patent may suddenly gain significant market power that did not exist before the standard was created. Patent holders can exploit this market power by acting opportunistically to charge the locked-in licensees more than they would have been willing to pay for the technology before the standard was set. Such exploitation by patent holders is known as “patent hold-up.” Hold-up can be exacerbated when the patent holder has the right to seek an injunction against the putative infringer, which would prevent the latter from selling any of its products that may infringe on the patent holder’s SEPs.

The threat of anticompetitive holdup and market power exploitation has led competition authorities to apply antitrust laws to abusive conduct related to SEPs. Antitrust investigations related to the abuse of SEPs have been percolating in the United States and Europe for the past several years, with an emphasis...
on the conditions under which it is appropriate for SEP holders to seek injunctions against putative infringers. Both of the US federal antitrust enforcement agencies have signaled their intent to remain actively involved in regulating how companies acquire and enforce SEPs, the US courts have issued numerous decisions that constrain SEP enforcement and establish a methodology for determining the appropriate royalty rate for SEPs, and the EU courts and European Commission have also been active in this area. The precise antitrust boundaries regarding SEPs are still not clearly defined, and as new rules are drawn, consensus is still far away. This article discusses some of the recent high profile antitrust investigations and cases related to SEPs in the US and Europe, addressing how their outcomes could affect future business practices and antitrust investigations in a burgeoning area of commerce.

SEPs and Antitrust in the US

Recently, SEPs have been the subject of a number of significant smartphone patent lawsuits in the US, most notably involving Samsung, Apple, Ericsson, and Motorola Mobility. SEPs are also squarely within the cross-hairs of both the US Department of Justice Antitrust Division (DOJ) and the Federal Trade Commission (FTC). SEPs can trigger antitrust issues because the SEP holder can hurt competition if it does not fairly license its patent. The antitrust agencies have weighed in on the responsibilities of SEP holders (as well as SSOs) to ensure that SEPs are available on reasonable and non-discriminatory (RAND) terms to all viable licensees.

Over the last few years, the FTC entered consent orders against Robert Bosch GmbH21 and Google, Inc.22 pursuant to its authority under Section 5 of the FTC Act, which prohibits “unfair or deceptive acts or practices in or affecting commerce.” The challenged behavior in both investigations related to the patent holder seeking injunctive relief based on alleged infringement of patents that had been declared essential to an industry standard requiring such patents to be licensed on fair, reasonable and non-discriminatory (FRAND) terms. The FTC did not challenge the validity of the patents, nor did it allege fraud when the standard was set. Rather, the FTC challenged the mere act of seeking injunctive relief after committing the patents to an industry standard – conduct that usually is entirely within the scope of the patent.

The consent order against Bosch required it to commit that it would (1) drop the pending SEP suits that had been brought by an entity it was seeking to acquire, and (2) not pursue any further actions for injunctive relief based on the SEPs it acquired. Google agreed to a similar commitment to close a conduct investigation related to the use of injunctions and exclusion orders in cases involving SEPs held by its then-subsidiary Motorola Mobility Inc. The FTC stated that when a company breaches a commitment to license SEPs on FRAND terms, it risks “substantial harm” to competition.

The US courts have simultaneously acted to reduce SEP holders’ ability to use the threat of injunction to achieve anticompetitive hold-up. In eBay, Inc. v. MercExchange, LLC,23 the US Supreme Court rejected a rule that an injunction generally will issue on a finding of infringement because monetary damages are usually sufficient to compensate for any harm from the infringement. In Apple Inc. v. Motorola, Inc.,24 the Federal Circuit recently applied the same logic to FRAND-encumbered SEPs, concluding that eBay “provides ample strength and flexibility for addressing the unique aspects of FRAND committed patents.”25 The court affirmed the denial of injunctive relief because the patent holder’s FRAND commitments “strongly suggest that money damages are adequate to fully compensate for any infringement.”26 However, the court also held open the possibility that injunctions “may be justified where an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect.”27

DOJ has also engaged in advocacy to encourage SSOs to address potential hold-up and other problems ex ante by modifying and clarifying their intellectual property rights (IPR) policies. For example, DOJ wants SSOs to limit the right of SEP holders to seek injunctions, including by constraining the right to seek an injunction to situations where the potential licensee is “unwilling” to take a FRAND license. Similarly, DOJ encouraged

24 757 F.3d 1286 (Fed. Cir. 2014).
25 Id. at 1332.
26 Id.
27 Id.
SSOs to give licensees the option to license FRAND-encumbered patents essential to a standard on a cash-only basis and prohibit the mandatory cross-licensing of patents that are not essential to the standard or a related family of standards, while permitting voluntary cross-licensing of all patents. DOJ also has asked SSOs to establish procedures that seek to identify, in advance, proposed technology that involves patents which the patent holder has not agreed to license on FRAND terms and consciously determine whether that technology should be included in the standard.

While SSOs have not widely adopted all of DOJ’s recommendations, they have started modifying their policies to account for the competitive effects of SEPs. The Institute of Electrical and Electronic Engineers (IEEE) recently announced proposed revisions to its patent policy regarding commitments from parties holding patent claims that are essential to IEEE standards to license those claims on FRAND terms. The update addressed the availability of injunctive relief, stating that participants “shall neither seek nor seek to enforce [an injunction]... unless the implementer fails to participate in, or to comply with the outcome of, an adjudication, including an affirming first-level appellate review... by one or more courts that have the authority to determine Reasonable Rates and other reasonable terms and conditions; adjudicate patent validity, enforceability, essentiality, and infringement; award monetary damages; and resolve any defenses and counterclaims.”28 IEEE also updated the meaning of a “reasonable” licensing rate, defined the permissible requests for reciprocal licensing, and established new production levels to which the commitment may apply. On 2 February 2015, DOJ announced that it would not challenge the proposed changes29, and IEEE promptly voted to approve them.

**SEPs and Antitrust in Europe**

The potential for abuse of dominance in the context of SEPs has also been an area of increasing interest in Europe, with the competition authorities and courts across the EU attempting to strike the right balance between the fundamental rights to property and access to the courts of the SEP holder on the one hand, and the freedom of those seeking to implement the standard to conduct business on the other. For their part, in order to ensure that standardised technology is accessible to all interested parties under reasonable conditions, SSOs like ETSI30 require that patent holders commit to license their SEPs on FRAND terms. Nevertheless, the conduct of SEP holders who have given such a commitment has given rise to a plethora of actions before the courts of several Member States. These have been based not only on competition law but also on civil law, and have given rise to a number of divergent legal approaches. This has resulted in a considerable degree of uncertainty as to the lawfulness of certain behaviour by SEP holders and companies which, in implementing the relevant standard, seek to use the teaching of an SEP.

Through its decisions in two investigations into the so-called “smartphone patent wars,” the European Commission has sought to clarify the circumstances in which injunctions to enforce SEPs can be anti-competitive under EU law. The investigations in question centred on whether Motorola31 and Samsung32 had abused their dominant position by seeking injunctions to prevent the alleged infringement of their patents essential to the 2G and 3G mobile and wireless communications standards respectively. Accepting binding commitments from Samsung and reaching an infringement decision against Motorola, the Commission reached a similar conclusion to the US courts and FTC, namely that it is anti-competitive to use injunctions in relation to SEPs where, in a standardisation context, an SEP holder has committed to license the SEP on FRAND terms and the licensee is willing to take a licence on such terms.

In response to the obvious question of what then constitutes a “willing” licensee, the Commission was quick to point out that this will need to be assessed on a case by case basis taking into account the specific facts. However, the Motorola and Samsung decisions do already make clear that companies will be deemed “willing” licensees where, in case of dispute, they are willing to have FRAND terms determined by a court or arbitrators (if agreed between the parties) and to be bound by such a determination. Indeed under its commitments to the Commission, Samsung is bound not to seek injunctive relief in the EEA for 5 years against any company that agrees to a licensing framework

29 Id.
30 The European Telecommunications Standards Institute.
providing for third party determination of FRAND terms by a court or arbitrators if no agreement can be reached on such terms through negotiation. Moreover, the Commission has stressed that such a licensee would not become “unwilling” if they were to challenge the validity, essentiality or infringement of SEPs.

The Commission’s word is unlikely to be the final one on this matter. A ruling from the Court of Justice is expected later this year in the context of the SEP-based litigation between Huawei and ZTE linked to the next generation of wireless technology, the long term evolution (LTE) standard developed by ETSI. Advocate General (AG) Wathelet’s opinion of November 2014 had much in common with the Commission’s position, holding that an SEP holder will abuse its dominant position if it seeks an injunction in circumstances where (i) it has given a commitment to the relevant standardisation body to grant third parties a licence on FRAND terms; and (ii) it can be shown that it has not honoured that commitment even though the infringer has shown itself to be “objectively ready, willing and able” to conclude such a licensing agreement.

AG Wathelet’s opinion went on to provide more detail on the various steps that an SEP holder must take prior to bringing an action for an injunction if he is to avoid abusing his dominant position. These include making a written FRAND offer to the alleged infringer containing the precise amount of royalty requested and the way in which that amount is calculated. For its part, the infringer must respond to that offer in a diligent and serious manner if he is to be considered “objectively ready, willing and able”, including by promptly presenting a reasonable written counter-offer if he does not accept the SEP holder’s proposal. The AG, like the Commission, considered that a licensee who – during the negotiations of a FRAND licence – reserves the right subsequently to challenge the validity, essentiality or infringement of SEPs, should not be considered “unwilling”.

Conclusion
The intersection of competition law and IP law in the context of SEPs has become increasingly clear on both sides of the Atlantic over the past two years, and the rules of the road are becoming more clearly defined. For example, successful injunction actions on SEPs will likely be increasingly rare in the US. In Europe, on the other hand, while the AG’s opinion provides more detailed guidance on the circumstances in which it may be anti-competitive for an SEP holder to seek an injunction enforcing its SEP, it remains to be seen whether the Court of Justice will follow the approach set out and what knock-on impact (if any) that will have on the patent policies or rules of SSOs in the EU. Either way, the Court’s final ruling later this year should pave the way for a welcome harmonisation of this issue across the EU going forward.

This area will also continue to evolve as SSOs adopt new IPR policies to deter and prevent anticompetitive hold-up, and patent holders will assuredly continue to find creative ways to maximize the monetary value of their SEPs. Moreover, there are still several important issues that remain at least somewhat unresolved, such as the proper method of determining a “FRAND” royalty rate in a specific case. In short, the ICT sector will remain in the crosshairs of competition enforcers on both sides of the Atlantic for the foreseeable future.

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33 Case C-170/13 - Huawei Technologies Co. Ltd v ZTE Corp., ZTE Deutschland GmbH.
34 Opinion of AG Wathelet in Case C-170/13, delivered on 20 November 2014.