



# CPI Antitrust Chronicle

October 2013 (1)

What a Difference a Year  
Makes: An Emerging  
Consensus on the Treatment  
of Standard-Essential Patents

Jonathan Kanter

Cadwalader, Wickersham & Taft LLP

# What a Difference a Year Makes: An Emerging Consensus on the Treatment of Standard- Essential Patents

Jonathan Kanter<sup>1</sup>

## I. INTRODUCTION

These days, it is difficult to identify an antitrust issue that is generating more discussion than standard-essential patents (“SEPs”). To some, SEPs are to antitrust what *Breaking Bad* is to television: a complex and important subject worthy of discussion. To others, SEPs are to antitrust what Miley Cyrus is to pop culture: a fad that consumes way too much attention and distracts from other more important subjects. In either case, antitrust lawyers and economists cannot stop scrutinizing the issue with vigor, fascination, and (sometimes) an admirable level of obsession.

Even just a year ago, the role of SEPs in litigation and the scope of commitments to license SEPs on fair, reasonable, and non-discriminatory (“F/RAND”) terms seemed so divisive and controversial that one could not imagine any resolution in the fore. As the so-called “smartphone wars” reached a fever pitch, antitrust emerged at the center of the controversy. The U.S. Department of Justice’s Antitrust Division (“DOJ”) was in the midst of reviewing two major transactions involving large patent portfolios: Google’s acquisition of Motorola Mobility (“MMI”), along with MMI’s patent portfolio, and the Rockstar Consortium’s (“Rockstar”) acquisition of certain patents auctioned off by then-defunct Nortel Networks (“Nortel”).

Shortly thereafter, complaints began flowing into enforcement authorities on both sides of the Atlantic about the conduct of individual companies. The European Commission (“EC”), DOJ, and Federal Trade Commission (“FTC”) responded by opening their own conduct investigations.

These events led commentators and regulators alike to grapple with two important but controversial questions: Do SEPs warrant special antitrust consideration? And, if so, how should antitrust laws address concerns inherent in the defensive use of SEPs?

Quite remarkably, antitrust enforcement authorities and courts have begun to converge around answers to some of these questions. In the last year alone we have seen two FTC consent decrees, two EC Statements of Objections, and four District Court opinions all suggesting that SEPs warrant a certain degree of special treatment under U.S. and European law.

Setting aside the rhetoric of interested parties on all sides of the issue—which remains as divisive as ever—one can see a consensus beginning to emerge around certain key principles. Courts, agencies, and policy makers all appear to agree that SEP holders should abide by their F/RAND commitments and refrain from obtaining injunctive relief against willing licensees.

---

<sup>1</sup> Partner in the Washington, D.C. office of Cadwalader, Wickersham & Taft LLP. I would like to acknowledge Dean Shaffer for his terrific assistance. Also, although I represent technology companies such as Microsoft, the views in this article are strictly my own.

This is not to suggest that either enforcement authorities or standards bodies broadly agree on all issues related to SEPs. To the contrary, these issues remain quite contentious. Still, the emerging alignment among key decision makers is somewhat remarkable considering the intense level of attention and controversy.

## **II. ARE ALL PATENTS CREATED EQUAL OR DO SEPs MERIT SPECIAL TREATMENT?**

Why do SEPs merit particular attention and/or even greater protection under the antitrust laws than garden-variety patents? The answer to this question lies at the heart of the standard-setting process. Industry-developed standards promote competition by facilitating interoperability among competing device platforms. Standards also reduce certain inefficiencies and promote greater access to developed networks. F/RAND licensing commitments and related rates are critical to the standard-setting process, as they prevent SEP holders from having undue bargaining (or “hold-up”) power in negotiating licenses for SEPs, which, by definition, potential licensees cannot avoid when implementing the standard. For example, a device that wants to access Wi-Fi networks cannot avoid implementing the 802.11 standard.

Without an effective mechanism such as F/RAND to limit this hold-up power, manufacturers would be at the mercy of SEP holders who could seek to impose unreasonable licensing terms. Uncertainty surrounding SEPs and F/RAND rates, as reflected in recent litigation, could undermine confidence in the standard-setting process, which, in turn, could hamper innovation and competition.

SEPs are a unique category of patents that owe their ubiquity to the standard-setting process. Standards bodies adopt SEPs in exchange for a commitment by the SEP holder to license the patent on F/RAND terms. SEPs derive significant value (even a majority of their value, according to some commentators) from their inclusion in pervasive, industry-wide standards.

Unlike SEPs, differentiating patents achieve market power because of a decision by the marketplace. Competitors are free to design around differentiating patents. This is not an option with SEPs, which engender special obligations in order to preserve the pro-competitive benefits of the standard-setting process.

Recognizing the difference between SEPs and differentiating patents, both courts and enforcement authorities have acted to preclude the SEP holder’s use of injunctive relief as a remedy for SEP infringement where a potential licensee has expressed a willingness, or—in some cases—merely not refused, to take a license on F/RAND royalty terms. At a minimum, SEP holders should not be able to seek injunctive relief until the parties resolve disputes regarding the SEPs through an independent adjudication on the merits. This approach protects SEP owners’ ability to receive reasonable royalty rates while ensuring that standards do not become too costly to implement or, even worse, allow the SEP holder to harm competition in the downstream market by excluding a competitor simply because that competitor incorporates the industry standard into its product.

## **III. AN EMERGING CONSENSUS: SEPs WARRANT SPECIAL TREATMENT**

Through recent investigations, cases, and policy statements, antitrust authorities have drawn a line in the sand on the use of SEPs as leverage in suits relating to infringement of non-

SEPs. Authorities appear to converge around the same underlying principle: SEP holders cannot seek or obtain injunctive relief against a willing licensee.<sup>2</sup>

### A. U.S. Department of Justice

The DOJ seemed to kick off the recent frenzy of interest around SEPs in its review of the Google/MMI and Rockstar/Nortel transactions. In its closing statement, the DOJ welcomed the voluntary F/RAND commitments by Microsoft and Apple as beneficial to competition. However, the DOJ distinguished Microsoft's and Apple's unqualified commitments to avoid seeking injunctive relief from Google's equivocal position. The DOJ expressed concern regarding Google's qualified F/RAND commitment not to seek injunctive relief where:

- the dispute only involved future licensing revenues;
- the counterparty agreed to forgo certain defenses such as patent-validity challenges;
- the counterparty paid the full disputed amount into escrow; and
- the counterparty agreed to a reciprocal process regarding injunctions.<sup>3</sup>

DOJ expressed concern that Google's position may not sufficiently protect competition. Why? Qualified commitments permit the SEP holder to wield SEPs aggressively against competitors in order, for example, to extract favorable licensing terms for the adverse litigant's non-SEP differentiating patents or for excluding competitive technologies in downstream markets.

DOJ also launched an investigation into Samsung Electronics for potential abuse of SEPs. Samsung sought to bar the import of several models of Apple's iPhone and iPad based on Apple's infringement of four of Samsung's patents—two that are allegedly SEPs. Although Samsung prevailed at the International Trade Commission ("ITC"), U.S. Trade Representative Michael Froman vetoed the ITC's decision because Samsung sought exclusion orders based on Samsung's SEPs.<sup>4</sup>

On September 2013, an Antitrust Division Deputy Assistant Attorney General, providing additional context to DOJ's position on the treatment of SEPs, suggested that seeking injunctive relief against willing licensees of SEPs may violate Section 2 of the Sherman Act.<sup>5</sup>

---

<sup>2</sup> A number of authorities have also concluded that, at a minimum, prospective licensees should have the opportunity to adjudicate the disputed terms in front of an independent tribunal before the SEP holder can seek an injunction on the SEP.

<sup>3</sup> U.S. Dep't of Justice, 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, 2013), [http://www.justice.gov/atr/public/press\\_releases/2012/280190.htm](http://www.justice.gov/atr/public/press_releases/2012/280190.htm).

<sup>4</sup> Ryan Davis, *USTR Won't Veto ITC Ban On Some Samsung Smartphones*, LAW 360 (Oct. 8, 2013), <http://www.law360.com/articles/478548/ustr-won-t-veto-itc-ban-on-some-samsung-smartphones>.

<sup>5</sup> Ron Knox, *Hesse Suggests Antitrust Could be Useful in Addressing Patent Abuses*, GLOBAL COMPETITION REV. (Sept. 26, 2013), available at <http://globalcompetitionreview.com/news/article/34237/hesse-suggests-antitrust-useful-addressing-patent-abuses> (subscription required).

## B. U.S. DOJ & Patent and Trademark Office

In a policy paper issued jointly with the U.S. Patent and Trademark Office in January 2013, the DOJ refined its position further: Injunctive relief is inappropriate for SEP infringement, the agencies argued, unless a putative licensee refuses to take a F/RAND license or acts outside the scope of the F/RAND commitment.<sup>6</sup>

## C. U.S. Federal Trade Commission

The FTC's recent actions reflect a similar position:

- In its statement accompanying its Complaint and Order against Robert Bosch GmbH, a majority of the Commission wrote that the FTC may “in appropriate circumstances” challenge SEP holders’ use of injunctive relief for SEPs encumbered by F/RAND commitments.<sup>7</sup>
- The FTC’s July 24, 2013 Consent Decree with Google/MMI prohibits Google/MMI from seeking injunctive relief against a putative licensee to whom Google/MMI had not made a F/RAND licensing offer (and after the parties adjudicated any disputed terms before an independent tribunal).<sup>8</sup>
- On September 27, 2013, Chairwoman Ramirez reaffirmed the Commission’s commitment to ensuring that SEP holders honor their F/RAND commitments: “[A]ntitrust agencies are very legitimately concerned about the unilateral conduct that circumvent SSO policies that are designed to guard against exercise of the market power by holdup after a standard is adopted.”<sup>9</sup>

## D. U.S. Courts

American courts that have considered this issue agree that SEPs encumbered by F/RAND commitments restrict the types of relief available to the SEP holder. For example, in *Apple, Inc. v. Motorola, Inc.*, MMI sought an injunction against Apple prohibiting the use of Motorola’s patents in connection with the Universal Mobile Telecommunications and General Packet Radio Service standards.<sup>10</sup> Seventh Circuit Judge Richard Posner, sitting by designation, dismissed Motorola’s claims for injunctive relief with prejudice. While Judge Posner found that Motorola failed to prove that damages were an inadequate remedy, he nevertheless opined that injunctive relief for alleged infringement of a SEP would be inappropriate. Judge Posner explained that a F/RAND commitment is an “implicit acknowledg[ment] that a royalty is adequate compensation for a license to use [the SEP].” He further declared that such a rule sufficiently protects SEP holders: if a putative licensee refuses to pay a F/RAND rate, that licensee risks a court setting a higher rate.

---

<sup>6</sup> U.S. Dep’t of Justice & U.S. PTO, 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>.

<sup>7</sup> Decision and Order, *Robert Bosch GmbH*, Dkt. No. C-4377 (Nov. 26, 2012).

<sup>8</sup> Decision and Order, *Motorola Mobility LLC & Google Inc.*, Dkt. No. C-4410 (July 23, 2013).

<sup>9</sup> Melissa Lipman, FTC Chief Vows to Keep Pursuing SEP Abuses, LAW 360 (Sept. 27, 2013), <http://www.law360.com/technology/articles/476299>.

<sup>10</sup> *Apple, Inc. v. Motorola, Inc.* 869 F. Supp. 2d 901 (N.D. Ill. 2012).

In *Microsoft Corp. v. Motorola, Inc.*, MMI sought injunctive relief against Microsoft for alleged infringement of patents relating to the 802.11 Wi-Fi standard and the H.264 video compression standard.<sup>11</sup> In denying MMI's motions for judgment as a matter of law, Judge James Robart found that SEP holders' F/RAND commitments come with an implied duty that requires good-faith conduct in licensing negotiations. This obligation precludes injunctive relief where the SEP holder has not fulfilled its good-faith F/RAND commitment.<sup>12</sup>

The *Apple/MMI* and *Microsoft/MMI* district courts may have had different approaches to questions as to whether, and when, a SEP holder can seek an injunction on a SEP. But both courts seem generally to agree that when SEP holders make a F/RAND commitment to license to implementers on F/RAND terms, attempts to skirt F/RAND obligations without first seeking an independent adjudication of the disputed terms will form the basis of some relief for would-be licensees.<sup>13</sup>

### E. The European Commission

The EC, too, recently indicated that injunctive relief is inappropriate where a putative licensee has not refused a license under F/RAND terms. In its press release regarding its Statement of Objections sent to Google, the EC stated that recourse to injunctions "may be abusive where SEPs are concerned and the potential licensee is willing to enter into a license on [F/RAND] terms."<sup>14</sup> Similarly, in the Commission's press release announcing that it would open proceedings against Samsung, the EC indicated that "owners of patents that are essential for the implementation of a standard [] commit to license these patents on [F/RAND] terms."<sup>15</sup> Now, the EC and Samsung reportedly are engaged in settlement discussions to close the EC's ongoing investigation.<sup>16</sup>

### F. Consensus

Collectively, over the past year, agency actions and judicial decisions draw the same line in the sand to limit the leverage SEPs carry, even in suits where the counterparty alleges infringement of non-SEPs. That is, firms cannot use SEPs to seek injunctive relief or insist on supra-F/RAND rates in order to establish an unfair position against a competitor.

---

<sup>11</sup> *Microsoft Corp. v. Motorola, Inc.*, Case No. C10-1823 (W.D. Wash. 2013).

<sup>12</sup> In the same case, the jury reached a unanimous verdict that Motorola breached its contractual commitments to Microsoft and the International Telecommunications Union, the relevant SSO. That conclusion also was consistent with an ITC judge's finding that "the royalty rate offered by Motorola . . . could not possibly have been accepted by Microsoft." Int'l Trade Comm'n, Initial Determination of Administrative Law Judge David P. Shaw at 300 (ITC 2012).

<sup>13</sup> See, e.g., Florian Mueller, *A Closer Look at the 207-Page, Landmark FRAND Rate-Setting Decision in Microsoft v. Motorola*, FOSS Patents (Apr. 28, 2013), <http://www.fosspatents.com/2013/04/a-closer-look-at-207-page-landmark.html#judgesrobartandposner>.

<sup>14</sup> Press Release, European Comm'n, Antitrust: Commission sends Statement of Objections to Motorola Mobility on Potential Misuse of Mobile Phone Standard-Essential Patents (May 6, 2013), [http://europa.eu/rapid/press-release\\_IP-13-406\\_en.htm](http://europa.eu/rapid/press-release_IP-13-406_en.htm).

<sup>15</sup> Press Release, European Comm'n, Antitrust: Commission opens proceedings against Samsung, (Jan. 31, 2012), [http://europa.eu/rapid/press-release\\_IP-12-89\\_en.htm](http://europa.eu/rapid/press-release_IP-12-89_en.htm).

<sup>16</sup> *Company Statement: Samsung says settlement offer in EU antitrust probe reduces 'uncertainties'*, MLex (Sept. 27, 2013), <http://www.mlex.com/EU/Content.aspx?ID=450057> (subscription required).



#### IV. CONCERNS REGARDING AGENCY AND JUDICIAL OVERREACTION ARE OVERSTATED

Not all voices are in tune with this emerging consensus. Those opposed to limiting the availability of injunctive relief claim that reducing a SEP holder's ability to seek an injunction will weaken SSOs themselves. According to this theory, patent holders are less likely to participate in a SSO if they know that F/RAND commitments will preclude certain remedies for infringement. Further, they question whether the inability to seek an injunction will weaken the negotiating position of SEP holders, resulting in the proliferation of "reverse hold-up," where a putative licensee prefers infringement to licensing.

These views cut against the emerging consensus. First, the F/RAND commitment itself is evidence that the patent holder intends to license the patent and not to use its intellectual property to enjoin shipments of competitors' products. SSO participants commit their patents to develop a standard that likely will obtain widespread adoption. Indeed, without the patent holder's F/RAND commitment to license the patents essential to implementing a standard, the SSO is much less likely to promulgate the standard including that technology. In other words, the risk of patent hold-up would force potential licensees to think twice before implementing a standard that reads on withheld patents whose owners insist on extraordinary royalty rates.

To that end, a F/RAND licensing commitment is no commitment at all if it permits the SEP holder to seek an injunction against a willing licensee of the SEP without first seeking independent adjudication of the disputed terms. The result of allowing such hollow commitments decreases the likelihood of the standard achieving widespread adoption, and has a chilling effect on the development of standards that would otherwise enhance competition and innovation through interoperability. For example, the world would be worse off without a ubiquitous 802.11 wireless standard that allows any wireless device to connect to any wireless network.

Critics of the consensus position also overstate the threat of "reverse hold-up" (or "hold out"). As Judge Posner explained, a SEP holder without access to injunctive relief can still ask a tribunal to award damages against the infringer. Concerns that the costs of litigation will stymie the willingness to litigate cut both ways. While legal fees may drive a SEP holder to the negotiating table and, ultimately, to accept a royalty rate lower than the maximum rate consistent with the F/RAND commitment, litigation costs also may exert upward pressure on the rate that the alleged infringer is willing to accept. Moreover, as Judge Posner observed in *Apple*, parties commonly settle for less than the amount sought in litigation. This is no different for SEPs and non-SEPs. It is just a fact of patent litigation (and the patent system) in general.

Finally, permitting injunctive relief for SEPs would cripple adoption of the standard. Individual SEP holders would have an incentive to sue for injunctive relief and obtain the higher hold-up value for their patents. Allowing such behavior would drive up the cost of the standard and reduce firms' willingness to implement.

#### V. THE CONSENSUS POSITION HELPS DRIVE INNOVATION AND COMPETITION

Patent rights continue to play an important role in fostering innovation. Patents facilitate the widespread dissemination of technology while rewarding inventors for existing inventions and incentivizing future inventive activity. Patented technologies also are the source of

competitive differentiation that drives competition. In recent actions, enforcement authorities have navigated the tension between inventive reward and access to technology by focusing on areas where competition concerns are most discernible, such as instances relating to the abuse of SSO-committed SEPs.

The emerging consensus position—that of the DOJ, the FTC’s recent decisions, and the EC—strikes a healthy critical balance between curbing abuse of the SSO process while maintaining the incentive to commit patented technology to industry-wide standards. When a standard achieves widespread adoption, a SEP holder benefits from the virtually assured, wide adoption of its intellectual property and the opportunity to collect F/RAND licensing revenue from that broader base. At the same time, F/RAND commitments foster proliferation of the standard by keeping the price of adoption relatively low.

## **VI. CONCLUSION**

Courts and regulators are moving in the same direction by limiting relief for SEP infringement to damages consistent with F/RAND licensing. All recognize that some issues remain unresolved. But as we look back to very recent developments, the relevant authorities have answered, or at least clarified, many of the most controversial questions. For some, the added clarity should provide a little more time to analyze *Breaking Bad* and gossip about Miley Cyrus. Others can devote the extra time to discussing so-called Patent Assertion Entities. Either way, what a difference a year makes.