

# STANDARDS, PATENTS, AND ANTITRUST POLICY: THE ROAD AHEAD



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## I. INTRODUCTION

The last decade has seen an increasing and evolving focus on technology standards, the licensing of patented technologies related to these standards, and the role of antitrust in patent licensing disputes. The debate has been a lively one – fraught with conflicts over the most fundamental issues and significant changes in policy. Several theories dictated the early debate. Some were empirically tested and rejected. What has emerged, hopefully, is a more enlightened and balanced approach.

This article analyses the guidance from recent global court decisions and policy statements from agencies in the US and EU for disputes involving Standards Essential Patents (“SEPs”) that are licensed on Fair Reasonable and Non-Discriminatory (“FRAND”) terms. These include the inter-agency joint statement from the US Patent and Trademark Office (“USPTO”), the Antitrust Division of the U.S. Department of Justice (“DOJ”), and the National Institute of Standards and Technology (“NIST”) on remedies available for SEPs;<sup>2</sup> the DOJ’s updated Business Review Letter to the Institute of Electrical and Electronics Engineers (“2020 IEEE BRL”);<sup>3</sup> and global court rulings, including the decision of the UK Supreme Court in *Unwired Planet v. Huawei*,<sup>4</sup> the German Federal Court of Justice’s decision in *Sisvel v. Haier*,<sup>5</sup> the Mannheim Regional court’s opinion in *Nokia v. Daimler*,<sup>6</sup> and the decision of the Court of Appeals for the Ninth Circuit in *FTC v. Qualcomm*, among others.<sup>7</sup> These developments together provide important and much needed guidance to some of the long-standing issues in the debate on SEPs and FRAND commitments.

The clarification on SEP policy and licensing is timely, considering the accelerated deployment of 5G around the globe. This new generation of wireless communications technology is far more pervasive than any other generation (or “G”), and is expected to be utilized not only by the traditional mobile industry but by other sectors of the economy, including automotive, health, retail, agriculture, manufacturing, and more. The global commerce enabled and supported by wireless technologies has grown rapidly. The number of mobile subscriptions has surpassed the number of people on the planet, the price per unit of data-usage has plummeted, and the number of products and brands available to consumers have skyrocket-

<sup>2</sup> U.S. Dep’t of Justice, U.S. Patent & Trademark Office & Nat’l Inst. of Standards & Tech., Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/Rand Commitments (Dec. 2019) [hereinafter *2019 Policy Statement on Remedies for Standards-Essential Patents*].

<sup>3</sup> Letter from Makan Delrahim, Assistant Attorney General, Gen., U.S. Dep’t of Justice, to Sophia A. Muirhead, Gen. Counsel & Chief Compliance Officer Ins. of Elec. & Elec. Eng’rs at (Sept. 10, 2020) [hereinafter *2020 IEEE BRL*].

<sup>4</sup> *Unwired Planet Int’l v. Huawei Technologies Ltd.*, [2020] UKSC.

<sup>5</sup> Bundesgerichtshof [BGH] [Federal Court of Justice], May 5, 2020, KZR 36/17, at 81 (Ger.) [hereinafter *Sisvel v. Haier*].

<sup>6</sup> Landgericht Mannheim [Regional Court of Mannheim], Aug. 18, 2020, 2 O 34/19 (Ger.) [hereinafter *Nokia v. Daimler*].

<sup>7</sup> *FTC v. Qualcomm Inc.*, 969 F.3d 974 (9th Cir. 2020).

eted. By any measure, wireless technology has been revolutionary, intensely competitive, and welfare enhancing for consumers. It is thus imperative to have clear guidance on policies enabling investment into the development of these technologies, which begins with the standards bodies.

This article is organized as follows: Section II discusses the theories of patent holdup and patent holdout. Section III analyzes the guidance courts and antitrust agencies have provided regarding the scope of antitrust in FRAND-related disputes. Section IV examines the availability of injunctive relief, and Section V summarizes the guiding principles of SEP valuation, and Section VI examines the existing jurisprudence regarding the licensing levels for FRAND-committed patents. Section VII concludes.

## II. PATENT HOLD-UP AND HOLD-OUT

Beginning in the mid-2000s, some economists, regulators, and commercial parties theorized that patent owners can “hold up” product manufacturers after they have sunk investment in developing and selling products that put a patented technology into practice.<sup>8</sup> They argued that the potential for such “patent holdup” is particularly high in the context of SEPs, as manufacturers of standard-compliant products are “locked-in” (have no design-around alternatives) once a standard is set. “Patent holdup” became a common argument raised in patent–infringement litigation, typically used to either reduce the damages award or to discourage the issuance of injunctions. It was used also in the context of antitrust, as commentators suggested that inclusion in a standard confers market power upon the owners of SEPs which may be abused and must therefore be restrained through antitrust enforcement.<sup>9</sup>

In the years that followed, several economists criticized the patent hold-up conjecture both on theoretical and empirical grounds.<sup>10</sup> They also observed that opportunism might arise on both sides. A patent owner can opportunistically increase the price of its technology after the standard is set and implementers have sunk costs into adopting the standard and prepared to manufacture and market standard-compliant-devices. Similarly, an implementer can refuse to pay licensing fees after the standard is set and the patent owner has invested significant sunk costs in R&D, a behavior referred to as “patent holdout.”

Indeed, the DOJ and other scholars have indicated that “patent holdout” is potentially a greater risk than “patent holdup.” In explaining why the hold-up and hold-out problems are not symmetric, Assistant Attorney General Makan Delrahim said:

“It is important to recognize that innovators make an investment before they know whether that investment will ever pay off. If the implementers hold out, the innovator has no recourse, even if the innovation is successful. In contrast, the implementer has some buffer against the risk of hold-up because at least some of its investments occur after royalty rates for new technology could have been determined. Because this asymmetry exists, under-investment by the innovator should be of greater concern than under-investment by the implementer.”<sup>11</sup>

Scholarly work has also pointed to the outsized danger of patent holdout. Epstein & Noroozi find that courts’ failure to recognize the symmetry of the FRAND principle, combined with their overreliance on liability rules (i.e., damages over injunctions), incentivizes the very patent holdout problem that FRAND was intended to avoid.<sup>12</sup> Layne-Farrar describes important differences between traditional patent litigation and litigation over SEPs that make holdout more common in the SEP licensing context.<sup>13</sup> Langus, Lipatov & Neven show that even if injunctions are available, SEP owners will sometimes accept below-FRAND rates, especially when litigation costs are high.<sup>14</sup> Jacobson states that a concern for SEP owners is that greater difficulty in obtaining an injunction, and the concomitant reduction in bargaining leverage, creates a “costless option”

8 See, e.g. Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 Tex. L. Rev. 1991 (2007); Joseph Farrell, John Hayes, Carl Shapiro & Theresa Sullivan, *Standard Setting, Patents, and Hold-Up: A Troublesome Mix*, 74 ANTITRUST L.J. 603 (2007).

9 See, e.g. Farrell, Hayes, Shapiro & Sullivan, *supra* note 8, at 607.

10 See, e.g. Alexander Galetovic & Stephen Haber, *The Fallacies of Patent-Holdup Theory*, 13 J. COMPETITION L. & ECON. 1 (2017); J. Gregory Sidak, *Is Patent Holdup a Hoax?*, 3 CRITERION J. ON INNOVATION 401 (2018).

11 Makan Delrahim, Assistant Attorney General, Gen., U.S. Dep’t of Justice, *Take It to the Limit: Respecting Innovation Incentives in the Application of Antitrust Law*, USC Gould School of Law, Los Angeles, California, (Nov. 10, 2017). <https://www.justice.gov/opa/speech/file/1010746/download>.

12 Richard Epstein & Noroozi Kayvan, *Why Incentives for Patent Holdout Threaten to Dismantle FRAND, and Why It Matters*, 32 BERKELEY TECH. L.J. 1381.(2017).

13 Anne Layne-Farrar, *Why Patent Holdout is Not Just a Fancy Name for Plain Old Patent Infringement*, CPI 1-4 (2016).

14 Gregor Langus, Lipatov Vilen & Neven Damien, *Standard-essential Patents: Who Is Really Holding Up (and When)?*, 9 J. OF COMPETITION L. & ECON. 253-2849 (2013).

for a potential licensee: negotiating in bad faith in an attempt to obtain a below(F)RAND royalty, with the worst-case- outcome being the (F)RAND royalty if litigation results.<sup>15</sup>

Courts and public agencies across the globe have gradually recognized that opportunism might occur both on the side of the SEP holder and on the side of the implementer. They have consequently refused to base their decisions on theoretical conjectures and have opted instead for a more fact-based analysis. This has been reflected in a variety of issues, including antitrust and the availability of injunctions.

### III. ROLE OF ANTITRUST IN FRAND DISPUTES

The patent holdup theory has led to a lengthy debate about the role of antitrust in FRAND disputes. Over time, however, courts and antitrust agencies have clarified that in the absence of *exclusionary* effects, an SEP holder's conduct, even if in violation of the FRAND commitment, falls outside the domain of antitrust law.

The initial antitrust scrutiny of SEPs gained momentum in the late 2000s. It was triggered by SEP holders' alleged deceptive practices during the standardization process. Cases like *Rambus* and *Qualcomm* established that an SEP holder's deceptive conduct during the standardization process might be actionable under antitrust law if it has an exclusionary effect — that is, if it harms competition among technologies that compete for the implementation in the standard.<sup>16</sup> With time, however, there has been an increase in cases challenging an SEP holder's conduct under antitrust law, even where there was no evidence (or even an allegation) of deception.<sup>17</sup> Firms argued that, because of the special nature of SEPs, charging an “above FRAND-” royalty or otherwise engaging in conduct that violates the FRAND commitment should be considered an antitrust violation.

However, U.S. courts have refused to use antitrust as a tool to enforce the obligations pursuant to a FRAND commitment. This was perhaps most clearly stated in 2020, in *FTC v. Qualcomm*, when the Ninth Circuit rejected the allegations that the FRAND commitment Qualcomm made to two standard-development organizations (“SDOs”) created an antitrust duty to license chip manufacturers.<sup>18</sup> The Ninth Circuit did not determine the exact contractual obligations arising from the FRAND commitments.<sup>19</sup> Instead, it said that showing a breach of those obligations would not suffice to establish a violation of antitrust law. The court emphasized that to succeed in its antitrust claim, the Federal Trade Commission (“FTC”) would have to explain how the breach of a FRAND commitment harmed competition. Ultimately, it failed to do so.<sup>20</sup> In refusing to use antitrust as a tool to enforce the FRAND commitment, the Ninth Circuit emphasized that there are “persuasive policy arguments [for] . . . caution about using the antitrust laws to remedy what are essentially contractual disputes between private parties engaged in the pursuit of technological innovation.”<sup>21</sup> A few months later, in *Continental v. Avanci*, the court for the Northern District of Texas reached a similar conclusion.<sup>22</sup> It emphasized that “[a]n SEP holder may choose to contractually limit its right to license the SEP through a FRAND obligation, but a violation of this contractual obligation is not an antitrust violation.”<sup>23</sup> The court reasoned that to be unlawful under antitrust laws, a conduct must harm the competitive process, but found no evidence that a violation of a FRAND commitment would have such an effect.<sup>24</sup>

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<sup>15</sup> Jonathan Jacobson, *Another Take on the Relevant Welfare Standard for Antitrust*, ANTITRUST SOURCE (Aug. 2015).

<sup>16</sup> *Rambus Inc. v. FTC*, 522 F.3d 456, 466-67 (D.C. Cir. 2008); *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 314 (3d Cir. 2007).

<sup>17</sup> See, e.g. *Vizio, Inc. v. Funai Elec. Co.*, No. CV 09-0174, 2010 U.S. Dist. LEXIS 30850 (C.D. Cal. Feb. 3, 2010); *Godo Kaisha IP Bridge 1 v. TCL Commun. Tech. Holdings Ltd.*, No. CV 15-634, 2017 U.S. Dist. LEXIS 26824, \*15 (D. Del. Feb. 27, 2017).

<sup>18</sup> *FTC v. Qualcomm Inc.*, 969 F.3d 974, 997 (9th Cir. 2020).

<sup>19</sup> *Id.*

<sup>20</sup> *Id.*

<sup>21</sup> *Id.*

<sup>22</sup> *Cont'l Auto. Sys. v. Avanci*, No. 3:19-cv-02933, 2020 U.S. Dist. LEXIS 173799 (N.D. Tex. Sept. 10, 2020).

<sup>23</sup> *Id.* at \*32-33.

<sup>24</sup> *Id.*; see also *id.* at \*30.

Although both the DOJ and the FTC were initially receptive towards suggestions that antitrust laws should play a more active role in the context of SEPs,<sup>25</sup> they have gradually revised their position, recognizing that a violation of a FRAND commitment is in itself not an antitrust violation. The “New Madison Approach” that the DOJ announced in 2018 states that “antitrust law should not be used as a tool to police FRAND commitments that patent-holders make to standard setting organizations.”<sup>26</sup> The DOJ emphasized that antitrust aims to address practices that harm the competitive process, but most FRAND disputes do not allege, let alone show, such harm. The FTC expressed a similar view. During a speech at Georgetown University Law Center in 2018, the FTC Chairman Joseph Simons said: “We agree with the leadership of the DOJ Antitrust Division that a breach of a FRAND commitment, standing alone, is not sufficient to support a Sherman Act case, and the same is true even for a fraudulent promise to abide by a FRAND commitment. More is needed.”<sup>27</sup> Chairman Simons repeated this view during the Senate Antitrust Oversight hearings in 2019.

In sum, U.S. courts and antitrust agencies have largely recognized that antitrust law is not a tool to police FRAND commitment compliance. Although SEP holders are in no way immune from antitrust law, a FRAND commitment does not alter the elements that the plaintiff must show to establish an antitrust violation. To be actionable under antitrust law, the SEP holder’s conduct must have an exclusionary effect. In the absence of such an effect, an SEP holder’s conduct falls outside the domain of antitrust law, even if in breach of the contractual obligations of the FRAND commitment.

## IV. AVAILABILITY OF INJUNCTIVE RELIEF

Recent legal developments have provided important guidance regarding the availability of injunctive relief. Although concerns over the SEP holder’s opportunism have initially led to a restrictive approach towards injunctions, courts and antitrust agencies have gradually recognized that a patent is fundamentally an exclusive right, and that all remedies, including injunctive relief should remain available to all patent holders.

Injunctions play a fundamental role in the functioning of the patent system. Because patents are intangible assets, patent holders must turn to the courts to prevent a patent infringement and/or to be appropriately compensated for the use of their patented technology. Injunctions are not only important for patent holders seeking to exclude others from using their patented technology, but also when patent holders seek to license their patents for monetary compensation. If injunctions are not available and the only remedy that a court will grant is monetary damages in the form of reasonable royalties (as lost profits are difficult to calculate and uncommon), an infringer will have little incentive to enter into a voluntary licensing agreement. Under this regime, it would be rational strategy for an infringer to hold-out and litigate, and only pay reasonable royalties in the case of a loss after years of delay.

Despite the essential role that injunctions have for the functioning of the patent system, in the mid-2010s, U.S. antitrust agencies engaged in enforcement and advocacy actions that sought to limit SEP holders’ ability to obtain such a remedy.<sup>28</sup> Although there has been no decision in which an SEP holder’s request for an injunction was found to violate U.S. antitrust laws, the agencies’ actions had significant implications. Several foreign competition agencies relied on their national antitrust provisions to challenge or limit the SEP holder’s use of injunctions. For example, in 2014, the European Commission brought two investigations, one against Motorola and one against Samsung, in which it alleged that an SEP holder’s request for an injunction against a “willing licensee” constitutes an abuse of a dominant position.<sup>29</sup> Other antitrust agencies adopted guidelines stating that seeking injunctive relief for SEPs against willing licensees might constitute an antitrust violation.<sup>30</sup>

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25 See, e.g. Renata Hesse, Deputy Assistant Att’y Gen., Antitrust Div., U.S. Dep’t of Justice, IP, Antitrust and Looking Back on the Last Four Years, Address at the Global Competition Review 2nd Annual Antitrust Law Leaders Forum (Feb. 8, 2013), <https://www.justice.gov/atr/file/518361/download>.

26 Makan Delrahim, Assistant Att’y Gen., Antitrust Div., U.S. Dep’t of Justice, Keynote Address at University of Pennsylvania Law School, The “New Madison” Approach to Antitrust and Intellectual Property Law at 2 (Mar. 16, 2018) [hereinafter *The “New Madison” Approach*], <https://www.justice.gov/opa/speech/assistant-attorney-general-makan-delrahim-delivers-keynote-address-university>.

27 Prepared Remarks of Chairman Joseph Simons Georgetown Law Global Antitrust Enforcement Symposium (Sept. 25, 2018), [https://www.ftc.gov/system/files/documents/public\\_statements/1413340/simons\\_georgetown\\_lunch\\_address\\_9-25-18.pdf](https://www.ftc.gov/system/files/documents/public_statements/1413340/simons_georgetown_lunch_address_9-25-18.pdf).

28 See, e.g. Statement of the Federal Trade Commission *In the Matter of Robert Bosch GmbH*, FTC File Number 121-0081 at 1 (Apr. 23, 2013); see also Complaint, *In the Matter of Robert Bosch GmbH*, Docket No. C-4377 (Nov. 26, 2012); Renata B. Hesse, Assistant Att’y Gen., U.S. Dep’t of Justice, *Six “Small” Proposals for SSOs Before Lunch*, ITU Patent Roundtable (Oct. 12, 2010).

29 Press Release, European Commission, Antitrust: Commission Accepts Legally Binding Commitments by Samsung Electronics on Standard Essential Patent Injunctions (Apr. 29, 2014).

30 See, e.g. Japan Fair Trade Comm’n, Guidelines for the Use of Intellectual Property Under the Antimonopoly Act. Part 3 (1) (i)(e) (2016) (Japan).

However, guidance from courts as well as policy makers has seen a course correction. The first step toward a more balanced approach in addressing injunctions for SEPs was the decision that the Court of Justice of the European Union (“CJEU”) adopted in *Huawei v. ZTE* in 2014.<sup>31</sup> The CJEU did not categorically exclude an antitrust liability for an SEP holder’s request for an injunction, but confirmed that if specific circumstances are met, a request for such a remedy raises no concerns under EU competition law. In providing the reasoning for its conclusion, the CJEU emphasized that although a FRAND commitment justifies imposing some obligations on the SEP holder, it cannot deprive it from the ability to enforce its “exclusive right.”<sup>32</sup>

In 2020, two landmark decisions further confirmed the availability of injunctions for SEPs. First, in May 2020, the German Federal Court of Justice, Germany’s highest court of civil jurisdiction, issued a decision in *Sisvel v. Haier*, in which it reiterated that even an SEP holder that has committed to offer a license to its patents on FRAND terms might be entitled to an injunction.<sup>33</sup> Indeed, the court found that the facts of the case supported the issuance of such a remedy.<sup>34</sup> A few months later, in August 2020, the UK Supreme Court issued a decision in *Unwired Planet v. Huawei*, in which it also found that the issuance of an injunction was appropriate.<sup>35</sup> The UK Supreme Court explicitly rejected the argument that a FRAND commitment “removes the SEP owner’s right to obtain an injunction and limits its remedy to monetary compensation.”<sup>36</sup> It said that such an argument “runs counter” to the balance between the protection of the interest of implementers and the interests of SEPs holders that a FRAND commitment seeks to achieve.<sup>37</sup>

A similar shift toward a less antagonistic view of injunctions for SEPs also emerged in the United States. Already in 2014, in *Apple v. Motorola*, the Federal Circuit rejected the notion that a FRAND commitment categorically precludes an SEP holder from obtaining an injunction. The Federal Circuit said that although “FRAND commitments are certainly criteria relevant to its entitlement to an injunction, we see no reason to create . . . a separate rule or analytical framework for addressing injunctions for FRAND-committed patents.”<sup>38</sup> In 2019, the DOJ, the USPTO, and NIST issued a *Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/Rand Commitments*, which reiterated that “all remedies available under national law, including injunctive relief and adequate damages, should be available for infringement of standards-essential patents subject to a F/RAND commitment, if the facts of a given case warrant them.”<sup>39</sup> Finally, the DOJ’s New Madison approach recognized that antitrust law should not be used to limit the SEP holders’ use of injunctions. The DOJ noted that “[i]f a patent holder effectively loses its right to an injunction whenever a licensing dispute arises, or is deterred from seeking an injunction due to the prospect of treble damages, an implementer can freely infringe, knowing that the most he or she will eventually have to pay is a reasonable royalty rate.”<sup>40</sup>

Therefore, courts and agencies across the globe have recognized that an SEP holder that has committed to offer a license to its SEPs on FRAND terms has the right to request (and sometime obtain) an injunction.

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31 C-170/13, *Huawei v. ZTE* (2015), ECLI:EU:C:2015:477.

32 *Id.* at ¶¶58-59.

33 *Sisvel v. Haier*, *supra* note 5, at ¶67.

34 *Id.* at ¶69.

35 *Unwired Planet Int’l v. Huawei Technologies Ltd.*, [2020] UKSC, at 37.

36 *Id.* at ¶54.

37 *Id.* at ¶59.

38 *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1331-32 (Fed. Cir. 2014).

39 2019 Policy Statement on Remedies for Standards-Essential Patents, *supra* note 2, at 4-5.

40 *The “New Madison” Approach*, *supra* note 26, at 13.

## V. VALUATION OF SEPS

Courts across jurisdictions have provided important guidance also for the valuation of SEPs. Two issues deserve particular emphasis.

First, courts across multiple jurisdictions have recognized that the analysis of comparable licenses provides a reliable methodology for determining FRAND terms and conditions.<sup>41</sup> From an economic perspective, comparable licenses provide the best evidence of what market participants consider to be a FRAND compensation for the use of a licensed portfolio. It should consequently come as no surprise that several courts have relied on evidence from existing license agreement to identify FRAND royalties. Some U.S. courts have opted for nonmarket-based methodologies, such as the “topdown” analysis.<sup>42</sup> Nonetheless, courts outside the United States have been more reluctant to second guess the outcome of real-world negotiations, and have limited the use of the topdown approach to “cross-check” the results of a comparable licenses- analysis.<sup>43</sup>

Second, courts have clarified that damages for FRAND-committed SEPs need not use the smallest, salable, patent practicing unit (“SSPPU”) as a royalty base. The Court of Appeals for the Federal Circuit said that the essential requirement in calculating damages for patent infringement is that “the ultimate reasonable royalty award [is] . . . based on the incremental value that the patented invention adds to the end product.”<sup>44</sup> It emphasized that this goal can be achieved by relying on different apportionment methodologies, not merely the use of the SSPPU as a royalty base. In 2014, in *Ericsson v. D-Link*, the Federal Circuit found reliable a methodology that used the royalties specified in comparable license agreements to calculate damages for the infringement of FRAND-committed SEPs.<sup>45</sup> Notably, the court found those licenses to be reliable even if they did not use the SSPPU as a royalty base. In 2015, the Federal Circuit confirmed the same principle in *CSIRO v. Cisco*, when it emphasized that a rule that would require all damages models to begin with the SSPPU would be “untenable” because in conflict with the Federal Circuit’s “prior approvals of a methodology that values asserted patents based on comparable licenses.”<sup>46</sup>

Other courts have similarly confirmed that parties might use a different royalty base than an SSPPU when executing FRAND license agreements. In *HTC v. Ericsson*, the court explicitly rejected the contention that a FRAND commitment made to the European Telecommunications Standards Institute (“ETSI”), a leading SDO developing wireless cellular standards, requires the use of the SSPPU as a royalty base.<sup>47</sup> In *FTC v. Qualcomm* the Ninth Circuit rejected the district court’s conclusion that Qualcomm’s licensing rates were “unreasonable” because they used the price of the end-product as the royalty base.<sup>48</sup> Quoting a decision by the Federal Circuit, the court noted that “sophisticated parties routinely enter into license agreements that base the value of the patented inventions as a percentage of the commercial products’ sales price,” and added that “[t]here is nothing inherently wrong with [that].”<sup>49</sup> The revised DOJ BRL issued to the IEEE similarly noted that “real-world licenses often set royalties based on end-product revenue” and added that those licenses often provide an effective method for estimating the patent’s value.<sup>50</sup> Across the Atlantic, in *Nokia v. Daimler*, the Mannheim Regional Court also found that the price of the end-product was the correct royalty base for a FRAND license.<sup>51</sup> The court said that the patent act confers to a patent holder a right to participate in the economic benefit that its patented technology contributes to the end product.<sup>52</sup> The court found that the SEPs in suit contributed importantly to the value of connected cars and said that that must be considered when determining the SEP holder’s compensation.<sup>53</sup>

41 See, e.g. *Ericsson Inc. v. D-Link Sys.*, 773 F.3d 1201, 1227 (Fed. Cir. 2014); *Unwired Planet Int’l Ltd v. Huawei Techs. Co.* [2017] EWHC (Pat) 711 (Eng.) [170]; *Sisvel v. Haier*, *supra* note 5, at 81 (although the court did not explicitly discuss the methodologies to determine a FRAND royalty it recognized that FRAND terms “can only be determined as the result of . . . negotiated market processes”).

42 See, e.g. *In re Innovatio IP Ventures, LLC Patent Litig.*, No. 11 C 9308, 2013 WL 5593609, at \*37–39 (N.D. Ill. Oct. 3, 2013).

43 *Unwired Planet* [2017] EWHC (Pat) 2988 [263, 269].

44 See, e.g. *Ericsson Inc. v. D-Link Sys.*, 773 F.3d 1201, 1226 (Fed. Cir. 2014).

45 *Id.* at 1227.

46 *Commonwealth Sci. & Indus. Research Org. v. Cisco Sys., Inc.*, 809 F.3d 1295, 1303 (Fed. Cir. 2015).

47 *HTC, Corp. v. Telefonaktiebolaget LM Ericsson*, No. 6:18-CV-00243, 2019 U.S. Dist. LEXIS 2872, at \*18 (E.D. Tex. Jan. 7, 2019).

48 *FTC v. Qualcomm Inc.*, 969 F.3d 974, 998 (9th Cir. 2020).

49 *Id.* (internal quotation omitted) (some alteration in original).

50 2020 IEEE BRL, *supra* note 3, at 7.

51 *Nokia v. Daimler*, *supra* note 6, at 54.

52 *Id.*

53 *Id.* at 55-56.

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## VI. LEVEL OF LICENSING

A recurring question in FRAND disputes is whether an SEP holder shall be able to choose the level of the value chain at which to license its patent portfolio. Some firms have argued that a FRAND commitment contractually restricts an SEP holder's freedom to choose the licensing level.<sup>54</sup> They have also argued that an SEP holder's decision to license only firms that operate at one level of the value chain violates antitrust law.<sup>55</sup> A question regarding the limits that antitrust law poses on the SEP holder's ability to select the licensing level is currently pending in front of the CJEU.<sup>56</sup> Yet, as of December 2020, courts in the US and in the EU have consistently rejected those arguments, confirming that neither the contractual obligations pursuant to a FRAND commitment nor antitrust law limit an SEP holder's right to select the licensing level for its patents.

U.S. courts rejected the allegation that antitrust law imposes a duty to license SEPs to component manufacturers on two separate occasions. In *FTC v. Qualcomm*, the Ninth Circuit rejected the argument that the practice of licensing end-product manufacturers, rather than component manufacturers, violated antitrust law. The court emphasized that the Sherman Act does not restrict a firm's right "to exercise his own independent discretion as to parties with whom he will deal."<sup>57</sup> The court recognized that the Supreme Court created an exception to this general rule in *Aspen Skiing*, but found that the challenged practice of licensing only end-product manufacturers did not fit within this rare exception.<sup>58</sup> As explained earlier, the Ninth Circuit found that the existence of a FRAND commitment did not support the creation of an additional exception to the rule that firms have no antitrust duty to deal with their rivals. In *Continental v. Avanci*, the district court reached a similar conclusion when it rejected the allegation that the practice of licensing SEPs to car manufacturers, rather than component manufacturers, violated antitrust laws.<sup>59</sup> Notably, in both cases, the courts questioned whether the practice of licensing end component manufacturers could have any effect on competition, considering that component manufacturers can manufacture their products, perhaps "at a lower cost, since [they do] . . . - not have to pay a license for an SEP."<sup>60</sup>

In the European Union, in *Nokia v. Daimler*, the Regional Court of Mannheim emphasized that "[i]n principle, it is up to the patent proprietor to choose the sales level at which it enforces its property right."<sup>61</sup> The court added that "[t]he right of the patent proprietor to decide against which patent infringer to take action is not restricted *per se* by antitrust law, even in the case of a dominant position."<sup>62</sup> Put differently, the court rejected the argument that the SEP holder abused its dominant position by refusing to license its patents to the component manufacturers and opting instead to license them to car manufacturers.

Courts have been skeptical also of the argument that a FRAND commitment contractually restricts an SEP holder's right to freely select the licensing level for its patent portfolio. Because SDOs have different FRAND commitments, it is necessary to examine the exact language of each specific commitment to correctly identify the SEP holder's contractual obligations. Yet, to our knowledge, there is no valid legal precedent suggesting that a FRAND commitment contractually restricts an SEP holder's ability to choose the level of the value chain at which to license its SEPs. The only decision in which a court found that a FRAND commitment created a duty for an SEP holder to license component manufacturers was ultimately vacated on appeal.<sup>63</sup> Therefore, the existing jurisprudence offers little, if any, support for the argument that a FRAND commitment contractually restricts an SEP holder's right to freely choose the level of the value chain at which to license its SEPs.

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54 See, e.g. Apple Inc. Response to DG Enterprise and Industry Consultation on Patents and Standards 19-20 (Feb. 14, 2015), <https://www.apple.com/legal/intellectual-property/frand/apple-inc.-submission-to-ec-public-consultation-on-patents-and-standards.pdf>; Complaint, *U-Blox AG, v. Sisvel Inten'l S.A.*, No. 20 cv-0494, at \*26-26 (S.D. Cal. Mar. 16, 2020).

55 See, e.g. Brief of Amicus Curiae ACT | The App Association Brief in Support of Appellee at 16-18, *FTC v. Qualcomm, Inc.*, No. 19-16122, 2019 WL 6715328 (9th Cir. Nov. 27, 2019).

56 *All Eyes on Luxembourg - Düsseldorf Refers Nokia v. Daimler FRAND Dispute to CJEU*, LEXOLOGY (Nov. 30, 2020), <https://www.lexology.com/library/detail.aspx?g=794b-9c0c-5454-49a7-9017-937b0ffaf299>.

57 *FTC v. Qualcomm Inc.*, 969 F.3d 974, 994 (9th Cir. 2020) (quoting *Verizon Communications Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398, 408 (2004)).

58 *Id.* at 995.

59 *Cont'l Auto. Sys. v. Avanci*, No. 3:19-cv-02933, 2020 U.S. Dist. LEXIS 173799 (N.D. Tex. Sept. 10, 2020).

60 *Id.* at \*23; see also *Qualcomm*, 969 F.3d at 996.

61 *Nokia v. Daimler*, *supra* note 6, at 62.

62 *Id.*

63 *FTC v. Qualcomm Inc.*, 969 F.3d 974, 988 (9th Cir. 2020).



Therefore, even when it comes to the question of licensing level, courts have provided uniform guidance, finding that that neither antitrust law nor the FRAND commitment limit an SEP holder's freedom to choose the licensing level.

## VII. CONCLUSION

Recent developments across various jurisdictions have provided much needed clarity for some of the most disputed issues related to the licensing of SEPs. The outcome of various court decisions and the policy positions expressed by several agencies have provided the following key takeaways. First, after a singular focus on concerns related to potential patent hold-up, courts and agencies around the world have recognized concerns related to patent hold-out (*Sisvel v. Haier*, *Unwired Planet v. Huawei*, *Nokia v. Daimler*, Joint PTO-DOJ-NIST Statement, 2020 IEEE BRL). Second, they have clarified that in the absence of exclusionary effects, an alleged breach of a FRAND commitment is not an actionable offence under antitrust law, but it is instead an issue of contract or patent law (*FTC v. Qualcomm*, *Continental v. Avanci*). Third, courts have emphasized that SEP holders have the right to seek injunctive relief against infringers of FRAND-committed SEPs and a request for such a remedy does not automatically trigger antitrust concerns (*Sisvel v. Haier*, *Nokia v. Daimler*, *Unwired Planet v. Huawei*, Joint PTO-DOJ-NIST Statement). Fourth, the analysis of comparable licenses provides the most reliable methodology for the valuation of SEPs (*Ericsson v. D-Link*, *Sisvel v. Haier*, *Unwired Planet v. Huawei*), and neither court awarded damages nor voluntarily executed license agreements need to use the SSSPU as a royalty base (*FTC v. Qualcomm*, *Nokia v. Daimler*). Fifth, an SEP holder has the freedom to choose at which level to license its SEPs (*Nokia v. Daimler*, *FTC v. Qualcomm*, *Continental v. Avanci*). These conclusions stand upon over a decade of deliberation and debate in the legal, economic, academic, and judicial community. Multiple court decisions and policy outcomes have led to a point where we finally have convergence on some of the key issues related to standards, patents, and the role of antitrust in resolving licensing disputes.



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