

CONTINENTAL V. AVANCI: THE FIFTH CIRCUIT CONFIRMS THE FALLACY OF “COMPULSORY LICENSE-TO-ALL”



BY DINA KALLAY¹



¹ Head of Antitrust (IPR, Americas & Asia-Pacific), Ericsson. Any views presented are the author's alone.

CPI ANTITRUST CHRONICLE

JULY 2022

INTELLECTUAL PROPERTY AND TRANSACTIONAL CHOICE: RETHINKING THE IP/ANTITRUST DICHOTOMY

By Jonathan M. Barnett



PROPOSED ANTITRUST REFORMS IN BIG TECH: WHAT DO THEY IMPLY FOR COMPETITION AND INNOVATION?

By Erik Hovenkamp



BIG DATA, LITTLE CHANCE OF SUCCESS: WHY PRECEDENT DOESN'T SUPPORT ANTI-DATA THEORIES OF HARM

By Kristen O'Shaughnessy, D. Daniel Sokol, Jaclyn Phillips & Nathan



FRIENDLY FIRE: HOW THE BIDEN ADMINISTRATION'S INNOVATION POLICY IS UNDERMINING U.S. NATIONAL SECURITY

By Kristen Osenga



A WIDER-APERTURE LENS FOR COMPETITION POLICY: ANTITRUST IN THE CONTEXT OF SYSTEMIC COMPETITION FROM CHINA

By David J. Teece



NATIONAL FRAND RATE-SETTING LEGISLATION: A CURE FOR INTERNATIONAL JURISDICTIONAL COMPETITION IN STANDARDS-ESSENTIAL PATENT LITIGATION?

By Jorge L. Contreras



CONTINENTAL v. AVANCI: THE FIFTH CIRCUIT CONFIRMS THE FALLACY OF "COMPULSORY LICENSE-TO-ALL"

By Dina Kallay



PATENT HOLDOUT EXPLAINS WHY PATENT HOLDUP IS STILL ON THE TABLE: IN MEMORIAM OF ALEXANDER GALETOVIC

By Jorge Padilla



CONTINENTAL v. AVANCI: THE FIFTH CIRCUIT CONFIRMS THE FALLACY OF "COMPULSORY LICENSE-TO-ALL"

By Dina Kallay

In its February and June 2022 *Continental v. Avanci* decisions, the Court of Appeals for the Fifth Circuit affirmed, and then reaffirmed, dismissal of Continental's alleged antitrust claims against the licensing program of the Avanci's standards essential patents ("SEP") platform and some of its member licensors. The new decisions follow similar analyses by the Court of Appeals for the Ninth Circuit, District Court for the Eastern District of Texas, and the U.S. Department of Justice Antitrust Division. These decisions and policy pronouncements all rejected attempts to argue that antitrust law imposes a "compulsory license to all" ("CLTA") confirming, instead, that SEP holders are free to choose their licensing model, and technology users cannot impose a compulsory duty on them to do business on any particular terms preferred by the plaintiffs. After nearly a decade of judicial and regulatory resources spent on considering and dismissing CLTA arguments, it is time to move on.

Visit www.competitionpolicyinternational.com for access to these articles and more!

CPI Antitrust Chronicle July 2022

www.competitionpolicyinternational.com
Competition Policy International, Inc. 2022[©] Copying, reprinting, or distributing this article is forbidden by anyone other than the publisher or author.

Scan to Stay Connected!

Scan or click here to sign up for CPI's FREE daily newsletter.



I. BACKGROUND

In its February 2022 *Continental v. Avanci* decision, the Court of Appeals for the Fifth Circuit vacated the district court's decision that Continental had standing to bring an antitrust claim against Avanci's standards essential patents ("SEP") licensing program characterized by a field of use licensing feature. It found Continental, a maker of automotive telematics control units ("TCUs") failed to plead facts to support any injury and, as a result, rejected the so-called compulsory license-to-all ("CLTA") argument that has served as a hold-out strategy in recent years.² In June 2022, the Fifth Circuit arrived at the same result by reaffirming that district court decision. This paper reviews some of the history of the repeatedly-rejected CLTA argument, the attempts to dress it as an antitrust issue, and the recent Fifth Circuit decisions and their ramifications.

II. *ERICSSON v. D-LINK* (A PATENT INFRINGEMENT AND FRAND CASE)

One of the early CLTA argument attempts appeared in the 2013 *Ericsson v. D-Link* District Court decision.³ In that matter, Ericsson brought a patent infringement suit against a group of longtime infringers who included D-Link Systems, Netgear, Belkin International, Acer, Gateway, Dell, and Toshiba. The suit involved Wi-Fi patents that were subject to a Reasonable and Non-Discriminatory ("RAND") licensing commitment under the patent policy of a standards development organization called IEEE.

Intel Corporation, who was the supplier of components that went into the infringers' products, intervened in the case asking to join as a defendant. Intel's argument was that Ericsson's RAND licensing obligation to IEEE supposedly meant that it had to offer Intel, a component maker, a license. It then argued that Ericsson's failure to do so was a violation of that RAND commitment. In rejecting Intel's CLTA argument, the District Court explained:

"Defendants basically argue Ericsson breached its RAND obligations by not suing Intel, then not seeking damages against Intel after it intervened in the case. This argument fails . . . Ericsson is the plaintiff. As the plaintiff, it is the master of its own case. Originally, Ericsson elected not to sue Intel, and Defendants cite no law requiring a patentee to sue all potential licensees. After Intel intervened in the case, Ericsson elected not to pursue damages from Intel. . . . Once again, Defendants cite no authority that a plaintiff must seek damages from all Defendants in a case."⁴

III. *FEDERAL TRADE COMMISSION v. QUALCOMM* (AN ANTITRUST AND FRAND CASE)

Another attempt to argue for a CLTA was presented in the Federal Trade Commission's January 2017 complaint against Qualcomm. In that complaint, the FTC majority alleged that Qualcomm's policy of not licensing competing baseband processors manufacturers was "in contravention of its FRAND commitments" and "contribute[d] to its ability to tax its competitors' sales and maintain its monopoly"⁵

While the District Court initially agreed with the FTC majority arguments that Qualcomm's licensing policy violated its FRAND commitment, and identified an antitrust duty to license theory,⁶ that position was rejected by the Department of Justice Antitrust Division in an amicus brief filed in this matter,⁷ as well as on appeal by the Court of Appeals for the Ninth Circuit.

In rejecting the arguments that Qualcomm's refusal to license rival chip makers was anticompetitive or violated its contractual FRAND commitments, the Ninth Circuit cited Supreme Court case law for two principles. First, that there is "no duty to deal under the terms and con-

² *Continental Automotive Systems v. Avanci LLC* (Fifth Cir. 2022) available at <https://law.justia.com/cases/federal/appellate-courts/ca5/20-11032/20-11032-2022-02-28.html>.

³ Case No. 6:10-CV-473 *Ericsson Inc. v. D-Link Systems Inc.* (E. Dist. of Texas) (Aug. 6, 2013) Memorandum Opinion and Order available at <https://law.justia.com/cases/federal/district-courts/texas/bxedce/6:2010cv00473/125363/615/>.

⁴ *Id.* at 32-33. The case was later appealed to the Federal Circuit on different grounds, hence the August 6 2013 Opinion and Order are final.

⁵ *Federal Trade Commission v. Qualcomm Inc.*, Federal Trade Commission's Complaint for Equitable Relief (Jan. 17, 2017) available at https://www.ftc.gov/system/files/documents/cases/170117qualcomm_redacted_complaint.pdf at §§ 6 115 and 134.

⁶ Case No. 17-CV-00220-LHK *Federal Trade Commission v. Qualcomm Inc.* Findings of Fact and Conclusions of Law (N. Dist. California) (May 21, 2019) At 124-134 and 134-141 https://www.ftc.gov/system/files/documents/cases/qualcomm_findings_of_fact_and_conclusions_of_law.pdf.

⁷ <https://www.justice.gov/atr/case-document/file/1199191/download>.

ditions preferred by [a competitor's] rivals.”⁸ And, second, that the “Sherman Act ‘does not restrict the long-recognized right of [a] trader or manufacturer engaged in an entirely private business, freely to exercise his own independent discretion as to parties with whom he will deal.’”⁹ Thus, the Ninth Circuit concluded that:

“Qualcomm’s practice of licensing its SEPs exclusively at the OEM level does not amount to anticompetitive conduct in violation of §2, as Qualcomm is under no antitrust duty to license rival chip suppliers. To the extent Qualcomm has breached any of its FRAND commitments, a conclusion we need not and do not reach, the remedy for such a breach lies in contract and patent law.”¹⁰

IV. CONTINENTAL v. AVANCI DECISION (AN ANTITRUST AND FRAND CASE)

In 2019, Continental, a TCU supplier to the automotive industry, brought suit in the Northern District of California against Avanci, a wireless SEP licensing platform, and some of its licensor members including Nokia, Conversant Wireless, Optis, and Sharp.

The Avanci 4G licensing platform was only authorized to license SEPs at the OEM level (its framework did not include any restrictions on members ability to license separately outside of the pool). Its very similar proposed 5G licensing program, was reviewed by the Department of Justice Antitrust Division and received a positive Business Review Letter.¹¹

Continental alleged that Avanci and its co-defendants breached their FRAND contract commitments and violated Sections 1 and 2 of the Sherman Act in a number of ways. According to the complaint, as amended, SEP owners who committed them FRAND licensing assurances “concealed [their] intent to [] refuse to license certain users of standards in a given supply chain, charge supra-competitive royalty rates, and demand discriminatory terms and conditions.”¹² Continental alleged that, after being incorporated into the standards, the defendants, via their licensing vehicle Avanci, sought “inflated and non-FRAND royalty rates” that “Avanci knew Continental could not agree to.” Continental alleged that these actions had amounted to “illegally maintaining the monopoly power [defendants] initially obtained when their patented technologies became standardized.”¹³ The lawsuit also claimed that Avanci and its licensor members supposedly “collusively agreed to only offer licenses to the automotive industry at the OEM level in an attempt to obtain elevated royalties.”¹⁴

On August 30, 2019, the defendants moved to dismiss Continental’s claims on a number of grounds. With respect to the Sherman Act Section 2 claims, the defendants argued that Continental’s allegations are based on “an alleged breach of contract” not a violation of the antitrust laws, and that “a pricing disagreement over a contractual royalty rate commitment is not exclusionary conduct.”¹⁵ Defendants further argued Continental failed to plead with the required specificity that defendants deceived the relevant SSOs regarding their commitment to offer a FRAND rate.¹⁶ The case was consequently transferred to the Northern District of Texas without deciding on that motion to dismiss.

A. The Department of Justice Statement of Interest

On February 27, 2020, the U.S. Department of Justice filed a statement of interest (“Statement”), arguing that Continental’s breach of FRAND claims did not allege that defendants engaged in any unlawful exclusionary conduct for a few reasons.¹⁷ Among other propositions, the State-

⁸ *Pac. Bell Tel. Co. v. LinkLine Commc’ns, Inc.*, 555 U.S. 438, 457 (2009).

⁹ *Federal Trade Commission v. Qualcomm Inc.* (Ninth Cir. 2020) available at <https://cdn.ca9.uscourts.gov/datastore/opinions/2020/08/11/19-16122.pdf> at 31-32 (citing *Verizon Commc’ns Inc. v. Law Offices of Curtis v. Trinko, LLP*, 540 U.S. 398, 408 (2004)).

¹⁰ *Id.* at 56.

¹¹ Letter from Makan Delrahim, Ass’t Attorney General for Antitrust to Mark H. Hamer, Baker & McKenzie (July 28, 2020), available at <https://www.justice.gov/atr/page/file/1298626/download>.

¹² ¶¶ 87-98 of the complaint, available at <https://images.law.com/contrib/content/uploads/documents/403/16984/Continental-v.-Avanci.Complaint.pdf>.

¹³ *Id.* at ¶¶ 8 and 126, respectively.

¹⁴ *Id.* at ¶ 8.

¹⁵ See defendants’ Motion to Dismiss, Doc. 162, at 13.

¹⁶ *Id.* at 13-14.

¹⁷ Case 3:19-cv-02933-M *Continental Automotive Systems v. Avanci LLC* Statement of interest of the United States (Feb. 27, 2020) <https://www.justice.gov/atr/case-document/file/1253361/download>.

ment explained that a patent holder's effort to maximize its licensing rates after agreeing to abide by FRAND terms does not constitute unlawful exclusionary conduct. It also explained there is no antitrust duty to deal, including in FRAND contexts. And it noted that FRAND negotiations are already adequately policed by contract and patent laws, and thus a third antitrust liability layer would be inappropriate.

B. District Court Dismisses the Case

In September 2020, the District Court granted the defendants motion to dismiss, finding that plaintiffs failed to plead antitrust standing, an unlawful agreement to restrain trade under § 1 of the Sherman Act, and an unlawful monopoly or conspiracy to monopolize under § 2 of the Sherman Act. The Court found the plaintiff's theories of defendants' unlawful agreement to price fix through the Avanci platform and unlawful monopolization through deception of the standards development organizations to be legally untenable, and thus ordered that these claims be dismissed with prejudice.

However, the district court declined to dismiss for lack of constitutional Article III standing and ripeness because, while any injury Continental might have from its potential obligation to indemnify OEMs was too speculative, it found it had sufficient injury" based on its alleged inability to obtain from Defendants, on FRAND terms, SEP licenses needed for its TCUs."¹⁸

With respect to standing under antitrust law, the court found Continental's alleged inability to obtain a FRAND license "does not harm its competitive position or its position as a consumer of products used in its devices." This was because:

"Even in light of Defendants' allegedly anticompetitive conduct, [Continental] can still produce TCUs for the OEMs, since, according to Plaintiff, Defendants are actively licensing the SEPs to the OEMs. In fact, Plaintiff may be able to produce TCUs at a lower cost, since it would not have to pay a license for an SEP, because the OEMs have one."¹⁹

Noting that "Plaintiff and the OEMs form distinct parts of the TCU supply chain. Plaintiff builds the TCUs that then go downstream to the OEMs, which install the TCUs in vehicles they manufacture," and citing the Ninth Circuit's 2020 *FTC v. Qualcomm* decision²⁰ the court held that "[t]he anticompetitive conduct allegedly directed at the downstream OEMs does not create an antitrust injury for the upstream TCU suppliers, like Plaintiff" and thus has no antitrust standing.²¹ Because all of Continental's federal question claims were dismissed, the court declined to exercise supplemental jurisdiction and dismissed the federal claims with prejudice.²²

C. Fifth Circuit Appeal Decision Affirms the Dismissal

Continental appealed the dismissal to the Court of Appeals for the Fifth Circuit. In its February 28, 2022 decision on the appeal,²³ the Fifth Circuit focused on Continental's constitutional Article III standing. The Fifth Circuit first addressed the company's theory that it had suffered an injury through the possibility that OEMs would take non-FRAND licenses and pass those costs onto Continental through indemnity agreements. It agreed with the district court that there was no standing because Continental's injuries were "not . . . actual or imminent."²⁴ Moreover, it found

"[the] alleged injury is 'doubly speculative': Continental would not be harmed unless OEMs first accepted non-FRAND licenses and then invoked their indemnification rights against Continental. Here, the pleadings do not establish that OEMs have accepted such licenses and invoked such rights" . . . at most [Continental's submissions] demonstrate that OEMs may seek to have Continental offset costs associated with licensing."

The Fifth Circuit also found that "Continental does not appear to be an intended beneficiary contractually entitled to a license on FRAND terms. And as an incidental beneficiary, it would have no right to enforce the FRAND contracts between the Patent-Holder Defendants and the

¹⁸ See <https://www.lit-antitrust.shearman.com/siteFiles/32796/Continental%20v%20avanci%20usdc%209-14.pdf> at page 8.

¹⁹ *Id.* at 13.

²⁰ *FTC v. Qualcomm* (Ninth Cir., 2020) <https://law.justia.com/cases/federal/appellate-courts/ca9/19-16122/19-16122-2020-08-11.html>.

²¹ See <https://www.lit-antitrust.shearman.com/siteFiles/32796/Continental%20v%20avanci%20usdc%209-14.pdf> at page 14.

²² *Id.* at 26.

²³ Available at <https://law.justia.com/cases/federal/appellate-courts/ca5/20-11032/20-11032-2022-02-28.html>.

²⁴ *Id.* at 8.

SSOs"²⁵. However, that finding was not dispositive because the court found that, even if Continental were an intended beneficiary, it had "suffered no cognizable injury" because the patent owners had satisfied their FRAND commitment with respect to Continental:

"The supplier acknowledges that Avanci and Patent-Holder Defendants are "actively licensing the SEPs to the OEMs[.]" which means that they are making SEP licenses available to Continental on FRAND terms" As it does not need to personally own SEP licenses to operate its business, it has not been denied property to which it was entitled. And absent a "denial of property to which a plaintiff is entitled," Continental did not suffer an injury in fact."²⁶

Under the relevant circumstances, the Fifth Circuit observed that it would be "easier" for OEMs to establish an injury-in-fact if the defendants were to sue them for infringement or threaten to do so, and for standards development organizations to establish an injury if the defendants breached their FRAND contracts by imposing non-FRAND rates. Because those scenarios were not before the Court, and defendants were actively licensing their SEPs to Continental's customers, it vacated the lower court decision and remanded with instructions to dismiss for lack of Article III standing, declining to reach the issues of antitrust standing on the merits.

D. On Rehearing – Fifth Circuit Reaffirms Dismissal, Affirms District Court Decision.

On April 13, 2022, Continental petitioned for a rehearing en banc of the February 28, 2022, Fifth Circuit decision. Two months later, on June 13, the court decided to treat Continental's petition as a petition for a (same) panel rehearing, withdrew the February 28 decision and announced that "a revised opinion will be forthcoming".²⁷ About a week later, on June 21, 2022, the court issued a short unpublished decision affirming the dismissal of the complaint and the District court's decision as follows:

"Having reviewed the district court's detailed order, and considered the oral arguments and briefs filed by the parties and amicus curiae, we AFFIRM the judgment of the district court that Continental failed to state claims under Sections 1 and 2 of the Sherman Act. See *Cont'l Auto. Sys., Inc. v. Avanci, LLC*, 485 F. Supp. 3d 712 (N.D. Tex. 2020)."²⁸

V. CONCLUSION

Between 2013-2022, the two Fifth Circuit *Continental v. Avanci* decisions, the Ninth Circuit's 2020 *FTC v. Qualcomm* decision, the 2013 District Court decision in *Ericsson v. D-Link*, and DOJ Antitrust Division policy guidances in a Statement of Interest and a Business Review Letter, have all rejected the false CLTA argument. These decisions and policy pronouncements all confirmed that SEP holders are free to choose their licensing model, and that technology users cannot impose a compulsory duty on them to do business on any particular terms only because these are the plaintiffs' preferred terms.

After nearly a decade of judicial and regulatory resources spent on considering and, consequently, dismissing CLTA arguments as not raising any antitrust or other legal issues, it is time to move on.

²⁵ *Id.* at 11.

²⁶ *Id.* at 12.

²⁷ No. 20-11032 *Continental Automotive Systems v. Avanci LLC* (5th Cir. June 13, 2022) Available at <https://www.documentcloud.org/documents/22059572-22-06-13-5th-cir-order-granting-panel-rehearing>.

²⁸ No. 20-11032 *Continental Automotive Systems v. Avanci LLC* (5th Cir. June 21, 2022) available at <https://s3.documentcloud.org/documents/22065093/22-06-21-fifth-circuit-revised-conti-v-avanci-judgment.pdf> ("Pursuant to 5th Circuit Rule 47.5, the court has determined that this opinion should not be published and is not precedent except under the limited circumstances set forth in 5th Circuit Rule 47.5.4").

CPI Subscriptions

CPI reaches more than 35,000 readers in over 150 countries every day. Our online library houses over 23,000 papers, articles and interviews.

Visit competitionpolicyinternational.com today to see our available plans and join CPI's global community of antitrust experts.

