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Standard Setting, Patents, and Competition Law Enforcement—The Need for U.S. Policy Reform

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I. INTRODUCTION

The setting of industry standards is widely recognized as a driver of economic growth—standards may reduce production costs; increase innovation, efficiency (through greater product interoperability, for example), and consumer choice; foster public health and safety; and facilitate international trade.[2] In the United States, standards development is sector-based and market-led, with American businesses typically voluntarily collaborating within private standard-setting organizations ("SSOs") to develop standards that all firms from their sector (including firms not within the SSO) can employ. Outside the United States, governments more frequently are involved in promoting and providing guidance to particular SSOs.

Many SSOs require their members to offer to license their patents that cover technology necessary to implement a standard—standard-essential patents ("SEPs")—on "fair, reasonable, and non-discriminatory" ("FRAND")[3] terms. Standards can also be set in the marketplace, where firms compete to have their own technology accepted by users as a de facto standard (Microsoft's Windows operating system and the Android mobile operating system currently developed by Google are examples).

Despite its substantial benefits, however, standard setting has long been a concern of antitrust ("competition") law enforcers,[4] primarily because it brings together competitors that have an inherent incentive to restrict competition among themselves. In recent years, competition law has focused substantial attention on potential competitive abuses stemming from patents held by individual standard-setting participants or their transferees.

This article briefly surveys the current U.S. competition law treatment of patent rights affected by standard setting, which centers on preventing "excessive" returns to individual patent

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[2] *See* Submission of the United States to Working Party No. 2 on Competition and Regulation, DAF/COMP/WP2/WD(2010)(2) (hereinafter 2010 U.S. Submission), *available at* http://www.ftc.gov/sites/default/files/attachments/us-submissions-oecd-and-other-international-competition-fora/usstandardsetting.pdf.

[3] For a discussion of the meaning and application of FRAND, *see, e.g.*, J. Gregory Sidak, *The Meaning of FRAND, Part I: Royalties*, 9 J. COMP. L. & ECON. 931 (2013), *available at* http://jcle.oxfordjournals.org/content/9/4/931.full. The term "reasonable and non-discriminatory" (RAND) is more frequently used in the United States, whereas FRAND is more typically used in other jurisdictions. For purposes of this article, it is assumed that the terms are essentially equivalent in application and the acronym FRAND is utilized to encompass both terms.

[4] I primarily use the term "competition law" in this article, which is used in lieu of "antitrust law" in most jurisdictions other than the United States.

holders, as contrasted to the traditional concern with forestalling collusion among competitors.[5] I conclude that the current approach is welfare-inimical and misplaced. It should be replaced instead with an exclusive focus on potential collusion among patentees, an approach that would better promote consumer welfare and innovation.

II. U.S. COMPETITION LAW TREATMENT OF THE STANDARD SETTING—PATENT LAW INTERFACE

U.S. competition law treatment of the interface between standard setting and patents has developed both through case law (not all of it focused on patents) and enforcement policy initiatives of the two federal antitrust agencies—the Federal Trade Commission ("FTC") and the U.S. Department of Justice ("DOJ").

A. U.S. Case Law and Agency Investigations

The U.S. federal judiciary has invoked antitrust law to strike down the collusive misuse of standard-setting processes to exclude products or technologies produced by rivals. In *Radiant Burners*[6] the U.S. Supreme Court held that allegations that manufacturers of gas burners conspired to manipulate their SSO's (the American Gas Association) certification tests for such products, so as to prevent a competing product from being certified and sold (utility members of the Association agreed to refuse to sell gas for use in uncertified burners), stated a claim for violation of Section 1 of the Sherman Antitrust Act (Section 1).

The Supreme Court subsequently held in *Hydrolevel*[7] that an SSO itself (the American Society of Mechanical Engineers ("ASME")) may be liable for antitrust damages if its agents or employees collude with private parties to manipulate safety or quality standards to exclude a competitor. In *Hydrolevel*, the Court affirmed a jury verdict that ASME members acting under the "apparent authority" of ASME colluded to produce a letter stating that plaintiff's competing water boiler safety device was unsafe and thereby discouraged customers from buying that device, in violation of Section 1.

In *Allied Tube*,[8] producers of steel electrical conduit conspired to "pack" a meeting of the National Fire Protection Association ("NFPA") SSO to prevent consideration of a proposal for NFPA approval of a competing polyvinyl chloride electrical conduit for inclusion in an electrical code used by builders. The Supreme Court affirmed a jury verdict that the steel conduit makers

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[5] Although discussion of IP and standard-setting analysis under the competition laws of other jurisdictions is beyond the scope of this article, recent OECD background papers on this topic reveal that EU and U.S. competition policies are fairly similar in this regard, and other jurisdictions' policies are developing. *See* Note by the European Union on Intellectual Property and Standard Setting, DAF/COMP/WD(2014)117, *available at* http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/WD%282014%29117&doclanguage=en; Background Note by the Secretariat on Intellectual Property and Standard Setting, DAF/COMP(2014)27, *available at* http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP%282014%2927&doclanguage=en.

[6] *Radiant Burners, Inc. v. Peoples Gas Light & Coke Co.*, 374 U.S. 656 (1961).

[7] *Am Soc'y of Mech. Eng'rs v. Hydrolevel Corp.*, 456 U.S. 556 (1982).

[8] *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492 (1988).

had subverted the NFPA standard-setting process and thereby restrained trade in violation of Section 1.

In all of these cases, firms were acting collectively within an SSO to protect their established product offerings from being undermined by new competitive offerings. Although these cases do not focus explicitly on patents, they are broadly applicable to joint anticompetitive conduct associated with SSO processes, including abusive behavior that may involve patents.

More recently, U.S. SSO-related antitrust cases have focused on single firm subversions of commitments made to an SSO with respect to standards that incorporate technologies protected by patent rights. The concern is that a firm may deceitfully induce an SSO into adopting a standardized technology covered by the firm's patents, and then subsequently demand "exorbitant" patent licensing royalties from companies that have absorbed sunk costs in building facilities that rely on that technology. Because the sunk costs effectively "lock in" those companies and raise their relative cost of switching to another standard, the deceitful patent holder is able to "hold them up" and obtain a higher licensing rate *ex post* (after standard setting and lock in) than would have been possible absent the deceit (which prevented the hapless SSO from fully considering competing technologies *ex ante* during the standard-setting process).[9]

Three FTC cases and one private case involve variations on this scenario.

In *Dell*,[10] the FTC alleged that during an SSO's deliberations concerning a particular standard, SSO member Dell had twice certified that it had no intellectual property relevant to the standard, and that the SSO adopted the standard based in part on Dell's certifications. Dell demanded royalties from firms using its technology in connection with that standard after it was adopted. The FTC accepted a consent agreement under which Dell agreed not to enforce the patent in question against firms using it as part of the standard.

In *Rambus*,[11] the FTC found that Rambus, a participant in a semiconductor chip SSO (JEDEC), had violated JEDEC's requirement that members disclose patents and patent applications during standard setting. The FTC further found that Rambus's actions contributed significantly to JEDEC's technology selections, and illegitimately gave Rambus monopoly power through its patents over four technologies incorporated into the standards, in violation of Section 5 of the FTC Act. The U.S. Court of Appeals for the D.C. Circuit, however, overturned the FTC's decision, holding that the FTC had failed to prove its case because it had not rejected the possibility that JEDEC would have developed the same standard even absent Rambus's deceptive conduct.

In *Unocal*,[12] the FTC alleged that Unocal misled the California environmental regulatory agency by claiming no proprietary interests in a proposed regulatory gasoline emissions standard. Unocal subsequently sought to enforce patent rights covering aspects of the standards

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[9] For a brief summary of hold-up and its effects, *see*, *e.g.*, 2010 U.S. Submission, *supra* note 2, at 8-10.

[10] *In re Dell*, 121 F.T.C. 616 (1998).

[11] *Rambus Inc. v. FTC*, 522 F.3d 456 (D.C. Cir. 2008), *reh'g en banc denied* (Sept. 9, 2008), *cert. denied*, 129 S. Ct. 1318 (2009).

[12] Statement of the Federal Trade Commission, *In re Union Oil Company of California*, Dkt. No. 9305 and *Chevron/Unocal*, File No. 051-0125 (June 10, 2005), *available at* www.ftc.gov/os/adjpro/d9305/050802statement.pdf.

against refiners that had become "locked in" to the standards' specifications, threatening to raise the cost of gasoline in California. Unocal settled this matter by agreeing not to enforce its patents related to the standard, as part of a dual consent agreement that allowed Chevron to acquire Unocal.

In *Broadcomm v. Qualcomm*,[13] the U.S. Court of Appeals for the Third Circuit held that it is actionable anticompetitive conduct if, in an SSO environment: (1) a patentee falsely promises to license its essential SEPs on FRAND terms, (2) the SSO relies on that promise in including the technology in a standard, and (3) the patentee subsequently breaches that promise. This decision is entirely in line with the logic of the FTC's *Rambus* prosecution. At the same time, it is not necessarily in conflict with the D.C. Circuit's *Rambus* holding, to the extent that it is deemed as applying to situations where the technology would have been excluded from the standard but for the false promise, and the breach of the promise allowed the patentee to achieve higher licensing fees than it would have otherwise.

Theories of single-firm deception during standard setting, while viable as a matter of theory, should be approached with great caution. SSO discussions typically are "repeat games" in which highly sophisticated companies participate time after time.[14] As such, sophisticated SSO members generally are able to protect themselves from potential future abuses by: (i) influencing SSO rules (such as FRAND licensing commitments); (ii) implicitly threatening to retaliate against abusers that would hold them up (by acting to disadvantage the transgressors in future rounds of negotiations); or (iii) using private law remedies (sounding in contract, patent law, or the tort of deception) to counter excessive licensing demands. Such countermeasures should suffice to deal with most problems.

In addition, given inherent ambiguities in third-party interpretation of complicated standard-setting discussions, a certain degree of enforcement agency error is inevitable. There is an inherent risk that enforcers may misdiagnose deception—for instance, by ignoring the fact that many other SSO participants may be engaging in behavior complained about, or by misunderstanding the nature of technical discussions. Possible errors by enforcers must be added to the burdens arising from very time-consuming agency investigations and prosecutions, plus the chilling effect on third-party companies that may be dissuaded from engaging in efficient SSO-related conduct that might be subject to mischaracterization. All told, these high cost burdens suggest that an emphasis on deception-related SSO antitrust investigations is problematic.

Three post-*Rambus* FTC consent decrees extended potential liability beyond cases of deceit within SSO proceedings to breaches of contract, including breaches by third parties. In all three cases, dissenting FTC Commissioners raised various concerns, including that these matters did not implicate *competition law theories* of harm, and more appropriately fell into the realm of private contract or patent law.

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[13] *Broadcomm Corp. v. Qualcomm Inc.*, 501 F.3d 297 (3d Cir. 2007).

[14] For example, sophisticated technology giants, such as Intel and IBM, participated in the JEDEC SSO in *Rambus*. Those giants, which held huge patent portfolios and productive assets, dwarfed the Rambus firm in size and resources. They presumably were not oblivious to the fact that Rambus, a pure technology company, relied critically on patent licensing fees as a source of revenue.

In *N-Data*,[15] a firm made a price-specific licensing commitment (a $1,000 one-time paid-up license) within an SSO (IEEE) and then subsequently transferred its patent interests, with a subsequent transferee, N-Data, demanding far higher royalties. An FTC majority found that the transferee had engaged in patent hold-up by exploiting the incorporation of patented technology into a standard and reneging on a known commitment made by its predecessor in interest. This opportunistic activity harmed competition by raising prices for an entire industry and threatening to subvert the IEEE's standard-setting process in a way that endangered the viability of standard setting in general, according to the FTC majority. In settling these charges, N-Data agreed not to enforce the patents in question unless it first offered a $1,000 one-time paid-up license.

In *Robert Bosch GmbH*,[16] an FTC majority found that SPX Service Solutions U.S. LLC harmed competition by reneging on a commitment to license SEPs on FRAND terms by seeking injunctions against willing licensees of those patents. As part of a settlement with the FTC, Bosch—which acquired SPX—agreed not to pursue claims for injunctive relief with respect to those patents.

In *Motorola Mobility LLC and Google Inc.*,[17] the FTC alleged that Google, which had acquired Motorola Mobility, harmed competition by reneging on Motorola Mobility's commitment to license its SEPs on FRAND terms—specifically by seeking or threatening injunctions against firms that were willing to accept FRAND licenses. In its settlement with the FTC, Google agreed not to seek injunctive relief before: (1) providing a potential licensee with a written offer containing all material terms required for an SEP license, and (2) providing the potential licensee with an offer of binding arbitration to determine specific licensing terms. The consent decree also provided potential licensees with a voluntary negotiation framework that they could opt into, and identified several narrow circumstances when Google would be allowed to seek an injunction (such as if the potential licensee refused to accept terms set by a court or an arbitrator).

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[15] *In re Negotiated Data Solutions, LLC*, File No. 051-0094 (Sept. 23, 2008), electronic case file *available at* http://www.ftc.gov/os/caselist/0510094/index.shtm; Dissenting Statement by Chairman Majoras, *available at* http://www.ftc.gov/sites/default/files/documents/cases/2008/01/080122majoras.pdf; Dissenting Statement of Commissioner William E. Kovacic, *available at* http://www.ftc.gov/os/caselist/0510094/080122kovacic.pdf.

[16] Analysis of Agreement Containing Consent Orders to Aid Public Comment, *In the Matter of Robert Bosch GmbH*, File No. 121-0081 (Apr. 24, 2013), *available at* http://www.ftc.gov/sites/default/files/documents/cases/2013/04/121126boschanalysis.pdf; Statement of Commissioner Maureen K. Ohlhausen (dissenting with respect to those portions of the consent relating to alleged conduct by the respondent involving SEPs), *available at* http://www.ftc.gov/sites/default/files/documents/public_statements/statement-commissioner-maureen-ohlhausen/121126boschohlhausenstatement.pdf.

[17] Analysis of Proposed Consent Order to Aid Public Comment, *In the Matter of Motorola Mobility LLC and Google, Inc.*, File No. 121-0120 (F.T.C. Jan. 3, 2013), *available at* http://www.ftc.gov/sites/default/files/documents/cases/2013/01/130103googlemotorolaanalysis.pdf; Dissenting Statement of Commissioner Maureen K. Ohlhausen, *available at* http://www.ftc.gov/sites/default/files/documents/public_statements/statement-commissioner-maureen-ohlhausen/130103googlemotorolaohlhausenstmt.pdf.

Unlike the FTC, the DOJ has not yet brought enforcement actions arising out of broken standard-setting pledges, but it has investigated acquisitions of patents (joint conduct, not unilateral conduct) subject to licensing commitments related to standard-setting processes. Three relatively recent matters deserve brief mention.[18]

DOJ investigated the acquisition of Novell's patent portfolio by CPTN, a holding company owned by Microsoft, Oracle, Apple, and EMC Corp.[19] Prior to the acquisition, Novell had committed to cross-license its patents on a royalty-free basis for use in the open-source Linux system. DOJ determined that, as originally proposed, the deal would jeopardize the ability of open-source software, such as Linux, to continue to be made available royalty free, harming competition in the development and distribution of server, desktop, and mobile operating systems, and related products. In response to these concerns, the parties agreed that all of Novell's patents would be made available under a widely used open-source license, and the deal was consummated.

DOJ also investigated two significant patent portfolio acquisitions—Google's acquisition of Motorola's patents and Rockstar Consortium's (a partnership formed by Apple, RIM, Sony, Microsoft, and Ericsson) acquisition of Nortel's patents—to determine whether the acquired patents could be used to raise rivals' costs or foreclose competition.[20] Specifically, DOJ examined whether the acquiring firms might seek to hold-up implementers of the standards by: (i) demanding higher royalty rates, (ii) compelling cross licenses, (iii) charging licensees the entire portfolio rate for a subset of patents, (iv) seeking to exclude infringing products from the market, (v) or obtaining higher royalties by the threat of an injunction.

DOJ ultimately decided not to take action in these two cases. It stressed the clear commitments by Apple and Microsoft to license SEPs on FRAND terms and not to seek injunctions on SEPs; and that Google's acquisition of Motorola's patents was not likely to alter the market dynamics of ongoing Motorola SEP licensing disputes involving Apple, Microsoft, and others.

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[18] They are different in kind from the other cases discussed, because these matters arose during DOJ's initial review of proposed acquisitions under the U.S. antitrust merger law, Section 7 of the Clayton Act, 15 U.S.C. § 18, which prohibits acquisitions (otherwise normal forms of business conduct) that are likely to lead to an accretion of market power ("may . . . substantially . . . lesson competition"). In marked contrast, the key U.S. antitrust statute devoted to unilateral conduct, Section 2 of the Sherman Act, 15 U.S.C. § 2, does not condemn the exercise of monopoly power acquired through competition on the merits (it prohibits *bad conduct* that creates or maintains monopoly power). *See Verizon Communications Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398, 407 (2004) ("It is settled that th[e]] [monopolization] offense requires, in addition to the possession of monopoly power in the relevant market, the willful acquisition or maintenance of monopoly power. . . . The mere possession of monopoly power, and the concomitant charging of monopoly prices, is not only not unlawful; it is an important element of the free-market system.").

[19] Press Release, Antitrust Div., U.S. Dep't of Justice, CPTN Holding LLC and Novell Inc. Change Deal In Order to Address Department of Justice's Open Source Concerns (Apr. 20, 2011), *available at* http://www.justice.gov/atr/public/press_releases/2011/270086.htm.

[20] Press Release, 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, 2012), *available at* http://www.justice.gov/atr/public/press_releases/2012/280190.pdf.

B. U.S. Agency Competition Policy Guidance

U.S. agencies have provided competition policy guidance through guidelines, policy statements, speeches, advisory opinions, and reports.

In 1995 the FTC and DOJ jointly issued Antitrust Guidelines for the Licensing of Intellectual Property ("IP Guidelines").[21] The Guidelines deem IP, including patents, as property rights (not "monopolies") that do not necessarily convey market power. They also characterize IP licensing contracts as generally pro-competitive and efficiency-enhancing means for the joining together of complementary factors of production.

The Guidelines, which evaluate IP licensing restrictions under the antitrust rule of reason, are primarily concerned with schemes that unnecessarily restrict competition *among* technologies (for example, among competing patented drug treatments for a disease), not with arrangements that allow an IP holder to maximize the returns to its particular technology. Indeed, consistent with this point, a central premise of the Guidelines is that licensing restrictions do not run afoul of antitrust law unless they create market power greater than the IP holder could have exercised without licensing. Thus, for example, if a patent does create monopoly power over a particular market, the patentee should be allowed to reap monopoly profits in that market. The 1995 Guidelines remain in force.

In 2007 the FTC and DOJ jointly issued a report on antitrust enforcement and IP (patent) rights that, among other topics, develops a rubric for assessing the competitive impact of licensing terms that might be disclosed and discussed by participants within SSOs.[22] Key conclusions of the report are as follows:

1. An IP holder's voluntary and unilateral disclosure of its licensing terms, including its royalty rate, is not a collective act subject to antitrust scrutiny. Relatedly, a unilateral announcement of a price before "selling" a technology to an SSO, without more, does not raise antitrust problems.
2. Bilateral *ex ante* negotiations between an SSO member and an IP holder outside the SSO are merely discussions of potential individual licensing terms that are unlikely to require special antitrust scrutiny.
3. The FTC and DOJ will apply the antitrust rule of reason (presumably with a generous eye toward efficiencies and likely legality) in evaluating *ex ante* joint activity among SSO member technology "buyers" (future licensees) and "sellers" (rival IP holders) before standardization confers additional market power on the holder of the chosen technology.

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[21] U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY (1995), *available at* http://www.justice.gov/atr/public/guidelines/0558.htm.

[22] U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION 1 (2007), *available at* http://www.ftc.gov/sites/default/files/documents/reports/antitrust-enforcement-and-intellectual-propertyrights-promoting-innovation-and-competition-report.s.department-justice-and-federal-tradecommission/p040101promotinginnovationandcompetitionrpt0704.pdf. The report referred in general terms to the broader category of "IP holders" rather than the subset of "patentees," but as a practical matter the primary focus of the report was on patent-related issues.

The joint activity may take various forms, such as *ex ante* licensing negotiations or an SSO rule that requires IP holders to announce their intended (or maximum) licensing terms being considered for incorporation in a standard.

4. Regarding standard setting, the report observes that many SSOs have implemented policies aimed at preventing hold-up, such as having SSO participants make *ex ante* disclosures of their relevant patents and commit to FRAND licensing.

5. Furthermore, the report notes the alleged problem of "royalty stacking" (the accretion of excessive royalty licensing loads derived from the many different patents that may cover a product) associated with "patent thickets" (the myriad overlapping patents in sectors like wireless telephony to which producers may require licenses).

In 2006 and 2007, DOJ issued "business review letters" advising two SSOs that it would not challenge under antitrust law their proposed *ex ante* patent licensing policies. Those letters reflected the general approach endorsed in the 2007 FTC-DOJ IP-antitrust report, summarized above:

1. In a 2006 letter to the VMEbus International Trade Association ("VITA"),[23] DOJ concluded that a policy under which VITA members would be required to disclose their most restrictive licensing terms would preserve *ex ante* competition among alternative technologies.

2. In a 2007 letter to IEEE,[24] DOJ similarly found that a proposed IEEE policy would stimulate competition for inclusion in the standard and speed up the development, implementation, and adoption of IEEE standards. IEEE's proposed policy: (i) allowed patentees to make voluntary assurances about their intended maximum royalty rates and most restrictive licensing terms, (ii) made all licensing assurances by patentees irrevocable, and (iii) made such assurances binding on future owners of the patents.

In a January 2011 Report on the Evolving IP Marketplace,[25] the FTC recommended that courts should base royalty rates for FRAND-encumbered patents on the results of an *ex ante* "hypothetical negotiation" before a standard is set and switching costs accrue. Under that framework, the FTC opined that a licensee would be unwilling to agree to a royalty that exceeded "the incremental value of the patented technology over alternatives available at the time the standard was defined." This approach could potentially yield extremely low royalty rates, thereby weakening at the margin incentives for the making of FRAND commitments. The 2011 Report also described potential cost burdens arising from the proliferation of "patent assertion entities" (non-innovators that purchase numerous patents for purposes of licensing or litigation).

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[23] Letter from Thomas O. Barnett, Assistant Attorney Gen., U.S. Dep't of Justice, to Robert A. Skitol, Esq. (Oct. 30, 2006), *available at* http://www.justice.gov/atr/public/busreview/219380.pdf.

[24] Letter from Thomas O. Barnett, Assistant Attorney Gen., U.S. Dep't of Justice, to Michael A. Lindsay, Esq., Dorsey & Whitney LLP (Apr. 30, 2007), *available at* http://www.atrnet.gov/subdocs/222978.pdf.

[25] FED. TRADE COMM'N, THE EVOLVING IP MARKETPLACE: ALIGNING PATENT NOTICE AND REMEDIES WITH COMPETITION (2011), *available at* http://www.ftc.gov/os/2011/03/110307patentreport.pdf.

In somewhat more balanced fashion, a January 2013 Joint Policy Statement by DOJ and the U.S. Patent and Trademark Office ("USPTO") ("Joint Statement") gave a nod to the importance of fair compensation for SEPs. It stated that:

> Although we recommend caution in granting injunctions or exclusion orders based on infringement of voluntarily F/RAND-encumbered patents essential to a standard, DOJ and USPTO strongly support the protection of intellectual property rights and believe that a patent holder who makes such a F/RAND commitment should receive appropriate compensation that reflects the value of the technology contributed to the standard. It is important for innovators to continue to have incentives to participate in standards-setting activities and for technological breakthroughs in standardized technologies to be fairly rewarded.[26]

The Joint Statement, however, was less helpful to U.S. SEP holders in its comments on the U.S. International Trade Commission's ("ITC") exercise of its authority to issue "exclusion orders" barring imported goods found to infringe U.S. patents, unless public interest considerations would counsel otherwise.[27] The Joint Statement concluded that exclusionary relief at the ITC to remedy infringement of FRAND-encumbered SEPs may cause competitive harm by facilitating patent hold-up and thus may be inconsistent with the public interest. The Joint Statement noted, nonetheless, that exclusion orders can be an appropriate remedy where an implementer refuses to pay what has been determined to be a FRAND royalty or refuses to engage in negotiations to determine FRAND terms. In August 2013 the United States Trade Representative's Office discussed the Joint Policy Statement's concerns about hold-up in exercising its legal authority to disapprove the ITC's exclusion of certain electronic devices.[28]

In 2014 the U.S. Executive Branch (including DOJ), as a member of the International Telecommunications Union ("ITU"), submitted recommendations to the ITU on the conditions under which injunctive and exclusionary relief may be available to owners of FRAND-encumbered patents essential to an ITU telecommunications standard.[29] The United States recommended that patentees or their successors in interest should neither seek nor seek to enforce injunctive or exclusionary relief against a potential licensee willing to accept a license on FRAND terms. Injunctive relief could, however, be sought where a potential licensee refuses to accept a FRAND license.

In line with this general U.S. Government opposition to injunctive-type relief in cases involving FRAND-committed patents, the FTC took an anti-injunction position in its December

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[26] U.S. DEP'T OF JUSTICE & U.S. PATENT & TRADEMARK OFFICE, POLICY STATEMENT ON REMEDIES FOR STANDARDS-ESSENTIAL PATENTS SUBJECT TO VOLUNTARY F/RAND COMMITMENTS 8 (2013), *available at* http://www.justice.gov/atr/public/guidelines/290994.pdf.

[27] *Id.* at 6-7.

[28] Certain Electronic Devices, Including Wireless Communications Devices, Portable Music and Data Processing Devices, and Tablet Computers, Inv. No. 337-TA-794 (Aug. 2013), disapproved by Ltr. From Michael B.G. Froman, Amb., U.S. Trade Rep., to Irving A. Williamson, Chairman, U.S. Int'l Trade Comm'n (Aug. 3, 2013), *available at* http://www.ustr.gov/sites/default/files/08032013%20Letter_1.PDF.

[29] United States Submission to Telecommunication Standardization Advisory Group, Contribution 43 (June 2014), *available at* http://www.nist.gov/standardsgov/upload/T13-TSAG-C-0043-A1-r1-E.pdf.

2012 *amicus curiae* brief filed in the *Apple v. Motorola* case.[30] The brief argued that an agreement to license on FRAND terms establishes a reasonable royalty as adequate compensation for patent infringement, and that issuance of an injunction in such a case would prove harmful to the public interest in promoting innovation and protecting consumers. Consistent with the FTC's filing, the Federal Circuit Court of Appeals concluded that Motorola's FRAND licensing "commitments, which yielded many licensing agreements . . ., strongly suggest that monetary damages are adequate to fully compensate [it] for any infringement."[31]

Representatives from DOJ and the FTC have also testified before Congress on potential competitive harm arising from SEP hold-ups that arise in light of standard setting.[32] In her testimony, FTC Chairwoman Ramirez urged Congress to act if necessary.[33]

Public presentations by FTC and DOJ officials have also highlighted the theories of competitive harm described above. For example, in a speech before an ITU patent roundtable, a senior DOJ official recommended that SSOs consider: (i) clarifying F/RAND commitments, (ii) making F/RAND encumbrances convey to subsequent owners, (iii) permitting cash-only licensing options, (iv) limiting injunction actions for F/RAND-encumbered SEP infringement claims, (v) creating guidelines or arbitration provisions to determine F/RAND rates, and (vi) attempting to determine which patents are truly essential to the standard among the patents that owners claim are essential.[34]

In a separate speech, that same official indicated that DOJ would "continue to look at" whether an antitrust violation may occur when a FRAND-encumbered SEP owner exercises the monopoly power that it acquired through participation in a standard-setting process in breach of

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[30] Brief of *Amicus Curiae* Fed. Trade Comm'n Supporting Neither Party, *Apple Inc. v. Motorola, Inc.*, Nos. 2012-1548, 2012-1549 2012 WL 6655899 at 10 (Fed. Cir. Dec. 4, 2012), *available at* http://www.ftc.gov/sites/default/files/documents/amicus_briefs/apple-inc.and-next-softwareinc.v.motorola-inc.and-motorola-mobility-inc./121205apple-motorolaamicusbrief.pdf.

[31] *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1332 (Fed. Cir. 2014).

[32] Prepared Statement of the Federal Trade Commission Concerning Oversight of the Impact on Competition of Exclusion Orders To Enforce Standard-Essential Patents before the S. Comm. on the Jud, 113th Cong. (2012) (statement of Edith Ramirez, Chairwoman, Fed. Trade Comm'n) (hereinafter Ramirez Testimony), *available at* http://www.ftc.gov/sites/default/files/documents/public_statements/prepared-statementfederal-trade-commission-concerning-oversight-impact-competition-exclusionorders/120711standardpatents.pdf; Oversight of the Impact on Competition of Exclusion Orders to Enforce Standards Essential Patents: Hearing Before the S. Comm. on the Judiciary, 112th Cong. 9-10 (2012) (statement of Joseph F. Wayland, Acting Assistant Att'y Gen., Antitrust Div., DOJ), *available at* http://www.justice.gov/atr/public/testimony/284982.pdf; Prepared Statement of the Federal Trade Commission Concerning Standard Essential Patent Disputes and Antitrust Law before the S. Comm. on the Jud. Subcomm. on Antitrust, Competition Policy and Consumer Rights, 113th Cong. (2013) (statement by Suzanne Munck, Chief Counsel for Intellectual Property, Fed. Trade Comm'n), *available at* http://www.ftc.gov/sites/default/files/documents/public_statements/prepared-statement-federal-tradecommission-concerning-standard-essential-patent-disputes-and/130730standardessentialpatents.pdf.

[33] *See* Ramirez Testimony, *supra* note 32, at 1-2.

[34] Renata B. Hesse, Deputy Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, Six "Small" Proposals for SSOs Before Lunch, Remarks as Prepared for the ITU-T Patent Roundtable 5 (Oct. 10, 2012), *available at* http://www.justice.gov/atr/public/speeches/287855.pdf.

the SEP owner's FRAND commitment.[35] FTC Chairwoman Ramirez also delivered a speech that describes the FTC's enforcement actions and policy views regarding SEPs and FRAND assessments.[36]

In a February 2, 2015 business review letter,[37] DOJ informed the IEEE that it had no plans to bring an antitrust enforcement action against SSO's proposed patent policy changes, which were then officially adopted on February 8.[38] Although they may not constitute an antitrust violation, these changes greatly devalue SEPs and thereby undermine incentives to make patents available for use in IEEE standards.

Key features of the policy changes are as follows:

- The new IEEE policy requires a patentee to provide the IEEE with a letter of assurance waiving its right to seek an injunction against an infringer, in order to have its patents included in an IEEE standard.
- The new policy also specifies that an analysis of comparable licenses for purposes of determining a FRAND royalty can only consider licenses for which the SEP holder has relinquished the right to seek and enforce an injunction against an unlicensed implementer.
- Moreover, under the change, an SEP holder may seek an injunction only after having fully litigated its claims against an unlicensed implementer through the appeals stage—a process that would essentially render injunctive relief highly impractical if not futile.
- In addition, the new policy precludes an SEP holder from conditioning a license on reasonable reciprocal access to non-SEP patents held by the counterparty licensee.
- Finally, the new policy straitjackets licensing negotiations by specifying that royalty negotiations must be based on the value of the "relevant functionality of the smallest saleable compliant implementation that practices the essential patent claim." This ignores the fact that the benefit that a claimed invention provides to an end product—which is often key to determining reasonable licensing terms—depends on the specific patent and product to be licensed, and not necessarily the "smallest saleable compliant implementation" (for example, a small microchip).

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[35] Renata B. Hesse, Deputy Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, IP, Antitrust and Looking Back at the Last Four Years, Remarks as Prepared for the Global Competition Review 2nd Annual Antitrust Law Leaders Forum 21 (Feb. 8, 2013), *available at* http://www.justice.gov/atr/public/speeches/292573.pdf.

[36] Edith Ramirez, Chairwoman, FTC, Standard-Essential Patents and Licensing: An Antitrust Enforcement Perspective, Address Before the 8th Annual Global Antitrust Enforcement Symposium, Georgetown University Law Center, Washington, D.C. (Sept. 10, 2014), *available at* http://www.ftc.gov/system/files/documents/public_statements/582451/140915georgetownlaw.pdf.

[37] Letter from Renata B. Hesse, Acting Assistant Attorney Gen., U.S. Dep't of Justice, to Michael A. Lindsay, Esq., Dorsey & Whitney LLP (Feb. 2, 2015), *available at* http://www.justice.gov/atr/public/busreview/311470.htm.

[38] Press Release, IEEE Statement Regarding Updating of its Standards-Related Patent Policy (Feb. 8, 2015), *available at* https://www.ieee.org/about/news/2015/8_february_2015.html.

All told, the new IEEE policy creates an imbalance between the rights of innovators (whose patents lose value) and implementers of technologies, and interferes in market processes by inappropriately circumscribing the terms of licensing negotiations.

Notably, this policy is in marked contrast to the SSO proposals that were the subjects of the favorable 2006 VITA and 2007 IEEE DOJ business review letters, discussed above. Those earlier VITA and IEEE proposals enabled individual SSO participants to reveal and commit to certain individual licensing terms that they had selected, thereby reducing the scope of negotiating uncertainty and facilitating mutually beneficial bargains *free from regulatory dictates*. In marked contrast, the 2015 IEEE policy *interferes in* the scope for negotiating over key bargaining terms affecting compensation, thereby drastically constraining contractual freedom.

The press release accompanying the release of the February 2 business review letter included this statement by the letter's author, Renata Hesse, DOJ Acting Assistant Attorney General for this matter: "IEEE's decision to update its policy, if adopted by the IEEE Board, has the potential to help patent holders and standards implementers to reach mutually beneficial licensing agreements and to facilitate the adoption of pro-competitive standards."[39] This bland statement disregards the extent to which the updated policy limits negotiating freedom.

Regrettably, the statement may fairly be read as a DOJ endorsement of the new IEEE policy, and, thus, as implicit DOJ support for devaluing SEPs. As such, it threatens to encourage other SSOs to adopt policies that sharply limit the ability of SEP holders to obtain reasonable returns on their patents. Such limitations should be avoided. Individual contract negotiations, which take into account the full set of matter-specific factors that bear on value, are far more likely to enhance welfare when they are not artificially constrained by "ground rules" that tilt in favor of one of the two sets of interests represented at the negotiating table.

III. PROBLEMS WITH RECENT U.S. GUIDANCE AND ENFORCEMENT POLICY

Recent FTC and DOJ competition policy approaches have emphasized almost exclusively preventing "excessively high" licensing rates for patents that cover aspects of standards. This focus on unilateral efforts by patentees to obtain high returns on their particular technologies is in marked contrast to the historical U.S. judicial concern with the exclusion or dampening of competition among rival technologies, embodied in the Supreme Court decisions surveyed above. The recent policy emphasis is unfortunate and welfare-inimical, for a variety of reasons.

First, there is a dearth of empirical evidence supporting the proposition that SEP hold-up and inflated costs due to royalty stacking are significant problems.[40] Moreover, the industry sector most commonly characterized as a major "victim" of these phenomena, mobile telecommunications, has provided its customers with an unprecedented level of innovative

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[39] Press Release, U.S. Dep't of Justice, Department of Justice Will Not Challenge Standards-Setting Organization's Proposal to Update Patent Policy (Feb. 2, 2015), *available at* http://www.justice.gov/atr/public/press_releases/2015/311475.htm.

[40] *See generally, e.g.*, Note by Anne Layne-Farrar (Charles River Associates, United States), DAF/COMP/WD(2014)84, *available at* http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/WD%282014%2984&doclanguage=en.

products and services at relatively low prices—sure signs of vibrant competition.[41] To the extent that litigation and business disputes have arisen in the sector, they have not in any way detracted from its superlative economic performance. (Such disputes are not unusual in industries undergoing major changes to their business models.) Thus, FTC and DOJ support for specific policies (including competition law scrutiny) aimed at reducing hold-up and stacking by limiting the exercise of patent rights is at best unnecessary, and at worst may inadvertently undermine efficient solutions generated naturally by market processes and orderly judicial dispute resolution.

Second, existing private law institutions, including contract, tort, and patent law, are well adapted to deal with disputes involving licensors and licensees. Adding antitrust to the mix may only serve to deter potentially efficient arrangements without providing significant additional benefits.[42]

Third, as indicated by the previous discussion, the value of patents, and SEPs in particular, is being undermined by recent government litigation, policy pronouncements, and SSO actions aimed at limiting the negotiating freedom of SEP holders. Indeed, a singular policy emphasis on hold-up could encourage "hold-out," whereby users of patents enjoy artificial bargaining leverage over patentees, yielding patent licenses at rates that inadequately compensate patent holders for their innovative efforts.[43] Over time, this would lead to lower investments in innovative activity at the margin and reduced incentives to participate actively in SSOs, dampening innovation-driven economic welfare and productivity improvements. Consistent with this conclusion, recent comparative research suggests that stronger national patent right protections are associated with higher rates of economic growth and innovation.[44]

Fourth, antitrust enforcement that devotes substantial resources to theoretical harms, such as unilateral SSO-related patent abuses, without adequately taking into account actual indicia of economic performance or countervailing considerations (for example, hold-out), is more likely to yield high error costs in application. This undermines optimal antitrust enforcement, which should seek to minimize the sum of error costs and administrative costs. In other words, it tends to promote bad enforcement policy.

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[41] *See id.* at 8.

[42] *See generally* Bruce H. Kobayashi & Joshua D. Wright, *Federalism, Substantive Preemption, and Limits on Antitrust: An Application to Patent Holdup*, 5 J. COMP. L. & ECON. 469 (2009).

[43] *See generally* Richard A. Epstein, F. Scott Kieff, & Daniel F. Spulber, *The FTC, IP, and SSOs: Government Hold-Up Replacing Private Coordination*, 8 J. COMPETITION L. & ECON. 19, 22-23 (2012); Anne Layne-Farrar, Gerard Llobet, & A. Jorge Padilla, *Preventing Patent Holdup: An Economic Assessment of Ex Ante Licensing Negotiations in Standard Setting*, 37 AIPLA Q. J. 445 (2009) (explaining how an SSO's voting rules can grant licensees bargaining power that can lead to holdup of patent holders).

[44] *See* Alden F. Abbott, *Abuse Of Dominance By Patentees: A Pro-Innovation Perspective*, 14 (1) ANTITRUST SOURCE 1, 8-10 (Oct. 2014) (summarizing recent scholarship), *available at* http://www.americanbar.org/content/dam/aba/publishing/antitrust_source/oct14_full_source.authcheckdam.pdf.

Antitrust enforcers should seek to prioritize their efforts to achieve the greatest welfare gains.[45] In particular, collusion among direct competitors is far more likely to be anticompetitive than unilateral conduct, and less likely to erroneously be mischaracterized as harmful by enforcers. Thus, to the extent enforcers decide to devote some attention to SSOs, they are better advised to hone in on potential collusion or exclusionary behavior involving purveyors of competing technologies, in line with traditional case law and policy guidance (such as the Supreme Court case law and the 1995 IP-Antitrust Guidelines summarized above).

IV. RECOMMENDATIONS AND CONCLUSION

Recent FTC and DOJ actions related to standard setting promote dubious enforcement theories and favor technology implementers over innovator patentees, to the detriment of dynamic competition and innovation. The federal competition agencies, the FTC and DOJ, should revisit these actions and issue a joint policy statement announcing a change in direction, including the following:

1. The policy statement should emphasize that the agencies will devote their limited enforcement resources primarily to the area where consumer harm is greatest—collusion among purveyors of competing technologies,[46] including collusion aimed at the exclusion of new competitors from the standard-setting process.
2. The statement could explain that alleged efforts by a single SSO participant to extract excessive monopoly returns on its SEPs following standards "lock-in" are far less likely to harm the competitive process and should not be an enforcement priority.
3. The statement could note that SSOs, whose members include sophisticated businesses, are perfectly capable of adopting procedures (such as *ex ante* disclosure of patents and FRAND licensing commitments) that are well suited to avoid exploitation of their processes.
4. The statement could stress that *ex post* private law remedies (contract, patent, and tort law) are available to disgruntled licensees that believe they have been unfairly harmed through patentee deception or violation of licensing commitments.
5. For these reasons, the statement could conclude that explicit adoption by U.S. enforcers of an exclusive focus on collusion (including collusion to exclude rival technologies) in standard setting would reduce expected antitrust error cost and hopefully would have a salutary effect on foreign competition officials' development of enforcement norms in this area.
6. In addition, the statement should disavow FTC and DOJ policy support for SSO actions (including SSO rules changes, such as the February 2015 IEEE patent policy changes, discussed above) that threaten to undermine the value of patents by specifying the terms

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[45] *See generally, e.g.*, Joshua D. Wright, *Evidence-Based Antitrust Enforcement in the Technology Sector*, CPI ANTITRUST CHRON. 1 (Mar. 2013) (Special Issue), *available at* https://www.competitionpolicyinternnbational.com/assets/Free/WrightMar-13Special.pdf.

[46] The Supreme Court has characterized collusion as "the supreme evil of antitrust." Verizon v. Trinko, *supra* note 18, 540 U.S. at 408.

of licensor-licensee negotiations, rather than merely facilitating negotiations by providing for *ex ante* information disclosures.

With these points made, the statement should—and would—reaffirm the 2013 DOJ-PTO Joint Statement's recognition of the importance of properly compensating SEP holders to reward and incentivize innovation:

> DOJ and USPTO strongly support the protection of intellectual property rights and believe that a patent holder who makes . . . a F/RAND commitment should receive appropriate compensation that reflects the value of the technology contributed to the standard. It is important for innovators to continue to have incentives to participate in standards-setting activities and for technological breakthroughs in standardized technologies to be fairly rewarded.[47]

[47] *See* analysis of Joint Statement, text accompanying note 26, *supra*.