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I. INTRODUCTION

Technical standards are a necessary exception to a competitive marketplace based upon feature differentiation, but they pose risks because of the market power they confer on holders of standard-essential patents ("SEPs," which generally speaking are technically essential and must be licensed in order to implement the standard). This is particularly true when the standard is widely adopted and there are no reasonable alternatives to its use. In such circumstances, a SEP owner can use the threat of an injunction to extract supracompetitive royalties or exclude competition entirely. This "lock-in" and related market power is what distinguishes SEPs from typical "differentiating patents" that are not incorporated into a formal standard—and is what makes Section 2 of the Sherman Act a powerful and appropriate tool to regulate SEP abuse.

The basic aim of the patent system is to create strong incentives to innovate and compete through feature differentiation, leading to consumer choice and competitive markets. As part of the patent grant, owners of differentiating patents may license their patents for a royalty, or enforce their rights to exclude infringers through an injunction or an action for damages. These rights, on their own, do not confer market power on the owner of a differentiating patent.[2] Free riders (would-be infringers) can choose to work around differentiating patents or license the patented technology if it is available. And when disputes arise and a differentiating patent holder seeks to exercise its right to exclude via an injunction, the usual *eBay* factors protect the parties' interests.[3]

By contrast, standards—which are, after all, the result of concerted action by a group of would-be competitors in a standard-setting organization ("SSO")—effectively end competition among differentiated solutions. They *can* create tremendous value by allowing competing platforms and devices to interoperate. Innovation and differentiation may migrate and expand from the standardized space to new technologies on top of or adjacent to standardized technology. But when a SEP is adopted into a standard, implementing the standard *requires* implementing the patented technology. This in turn confers significant market power on the patent and its holder. To deal with this problem – and to avoid antitrust liability, SSOs typically require SEP owners to promise to license to all on fair, reasonable, and non-discriminatory ("FRAND") terms.

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[2] *See Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28, 42-43 (2006).

[3] *eBay, Inc. v. MercExchange, LLC,* 547 U.S. 388 (2006).

In patent and contract cases, courts have rejected injunctions as violations of the SEP owner's FRAND promise.[4] But SEP injunctions also threaten competition, by raising prices, reducing output, and undermining confidence in standard-setting. Concerns over such harms prompted the FTC to pursue two high-profile cases under Section 5 of the FTC Act,[5] but courts and agencies also should not hesitate to employ Section 2 of the Sherman Act. Section 2 prevents the "willful acquisition or maintenance of [monopoly] power, as distinguished from growth or development as a consequence of a superior product, business acumen, or historical accident."[6] Seeking injunctions on FRAND-encumbered SEPs easily satisfies that standard. The elements of Section 2 and their applicability to SEPs are discussed in more detail below.

II. MARKET POWER

Market power is "the power to control prices or exclude competition."[7] By definition, SEPs confer market power on their owners. Once a SEP is included in a standard, any company wishing to employ that standard in its products must infringe the SEP. The patent cannot be designed around, or avoided in any way, nor is there any reasonable alternative—especially if the standard is widely adopted, such as the near-ubiquitous 802.11 WiFi and Bluetooth standards. The SEP owner thus has the ability to leverage the standard to demand prices it could not hope to obtain in a competitive market, or to exclude rivals altogether.[8]

The Supreme Court's caution against presuming market power in patent grants in *Independent Ink*, which is certainly true for differentiated patents, therefore does not apply to SEPs—the SEP owner *ipso facto* possesses market power in any relevant market where the standard is used. As the court in *Apple v. Motorola* observed, "…once a patent becomes essential to a standard, the patentee's bargaining power surges because a prospective licensee has no alternative to licensing the patent; he is at the patentee's mercy."[9]

Absent some affirmative duty, then, the SEP owner (as part of the group making up the standard) can deny access to its technology and to the entire standard in what is known as a "patent hold-up." To head off this problem, most standard-setting organizations ("SSOs") require that contributing patent owners promise to license their SEPs to all on fair, reasonable and non-discriminatory (FRAND) terms—an *ex ante* antitrust "fix" to the problem created by the group's concerted action. This basic bargain—market power conferred but restrained by a FRAND promise—is what makes SEPs fundamentally distinct from differentiating patents in a competitive market. Take away the FRAND commitment, and all that is left is unrestrained market power flowing from the concerted action.

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[4] *See, e.g., Microsoft Corp. v. Motorola, Inc.,* 696 F.3d 872, 885 (9th Cir. 2012); *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901 (N.D. Ill. 2012); *RealTek Semiconductor Corp. v. LSI Corp.*, No. C-12-03451 (N.D. Cal. May 20, 2013).

[5] *In the Matter of Robert Bosch GmbH*, FTC File No. 121-0081 (Nov. 26, 2012); *In the Matter of Motorola Mobility LLC and Google Inc.*, File No. 121-0120 (July 23, 2013).

[6] *United States v. Grinnell Corp.,* 384 U.S. 563, 570-71 (1966).

[7] *United States v. E.I. DuPont de Nemours & Co.*, 351 U.S. 377, 391 (1956).

[8] *See Microsoft Corp. v. Motorola, Inc.*, 696 F.3d at 872 (finding that "standards threaten to endow holders of standard-essential patents with disproportionate market power").

[9] Opinion and Order of Judge Richard Posner in *Apple Inc. v. Motorola, Inc.*, June 22, 2012 in the District Court for the Northern District of Illinois, Case No. 1:11-cv-08540.

III. ANTICOMPETITIVE CONDUCT

Anticompetitive conduct is that which "harm[s] the competitive process and thereby harms consumers."[10] Given a SEP owner's market power and the intended antitrust "fix" to restrict it, any action the SEP owner takes to breach the FRAND promise harms competition if the intended fix is frustrated. Enforcement agencies have found that seeking an injunction against a competitor that is willing to license a SEP on FRAND terms, for example, is just such an anticompetitive action—it is a refusal to deal with rivals that harms the competitive process.

As an initial matter, it is well-recognized that deception in standard-setting can distort competition and thus be exclusionary. In *Broadcom Corp. v. Qualcomm Inc.*, the plaintiff alleged that the defendant falsely made a FRAND promise in order to get its technology incorporated into a standard, and then demanded excessive royalties once the industry became locked in to that standard.[11] The Third Circuit held that "[m]isrepresentations concerning the cost of implementing a given technology may confer an unfair advantage and bias the competitive process in favor of the technology's inclusion in the standard."[12]

But Section 2 is not limited to claims of *ex ante* deception. The harm resulting from a breach of a FRAND promise occurs regardless of whether the SEP owner decides it will breach before, or after, its patents are incorporated into a standard. As described above, a SEP owner's FRAND promise is a contractual agreement to license its SEPs to others as a safeguard against misconduct resulting from the action taken in concert with others to create the standard. In return, the SEP owner receives market power and reasonable royalties from the widespread adoption of the standard.

This agreement creates a duty of good faith and fair dealing for licensing the technology that is explicitly and voluntarily accepted by the SEP owner.[13] And this, in turn, distinguishes SEP injunctions from the very rare circumstances in which a compulsory license of differentiated IP might be appropriate under Section 2 after *Trinko*.[14]

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[10] *United States v. Microsoft*, 253 F.3d 34, 58 (D.C. Cir. 2001).

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

[12] *Id.* at 313; *see also Research in Motion Ltd. v. Motorola, Inc.*, 2008 WL 5191922, at **5-6 (N.D. Tex. Dec. 11, 2008) (violating FRAND can harm the competitive process and thus constitute monopolization). And although the D.C. Circuit reversed a ruling by the FTC that the failure to disclose SEPs violated Section 2, it did so on the grounds that there was not sufficient evidence that the "but-for" world would have been more competitive. *Rambus Inc. v. FTC,* 522 F.3d 456 (D.C. Cir. 2008). As a more recent decision noted, this was "a failure of proof, not a failure of pleading," and the deceptive conduct at issue could support a finding of anticompetitive conduct and antitrust injury. Order Granting In Part and Denying In Part Motion to Dismiss and Strike, *Apple Inc. v. Samsung Elec. Co., Ltd.*, No. 11-CV-01846 (N.D. Cal. Oct. 18, 2011).

[13] *See* Jury Instructions, *Microsoft Corp. v. Motorola, Inc.,* No. C10-1823, Docket No. 908 (W.D. Wash. Sept. 4, 2013) (Instruction No. 16, describing the duty of good faith and fair dealing).

[14] *See Verizon Communications, Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398, 409-10 (2004) (identifying the "outer boundary" of Section 2 liability for refusing to deal as situations where conduct (such as forgoing short-term profits) shows that anticompetitive intent is the sole motivation for a monopolist's "important change in the character of the market."), *citing Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 604 (1985).

By now, courts have made it abundantly clear that seeking an injunction in the presence of a FRAND promise is a breach of that duty to deal. As Judge Posner wrote in *Apple, Inc. v. Motorola, Inc.*:

> by committing to license its patents on FRAND terms, Motorola committed to license the '898 to anyone willing to pay a FRAND royalty and thus implicitly acknowledged that a royalty is adequate compensation for a license to use that patent. How could it do otherwise? How could it be permitted to enjoin Apple from using an invention that it contends Apple must use if it wants to make a cell phone with UMTS telecommunications capability—without which it would not be a cell phone.[15]

The FTC has agreed, reaching consent orders with Bosch and with Google after finding that injunctions sought by those companies violated their FRAND commitments.[16]

This breach of the duty to deal harms both near- and long-term competition. In the immediate future, it distorts the negotiating process, raising input costs for licensees that are passed on to consumers—decreasing output of the downstream products. The context is critical here. Many technology standards have evolved over years or decades. They represent both enormous sunk costs in building standards-compliant products, and decisions not to invest in alternatives to the technology incorporated into those standards. Obtaining injunctive relief for SEPs would block the introduction or importation of a product or even an entire business line.

Therefore, the mere threat of an injunction for SEPs can force a licensee to pay an above-FRAND royalty or negotiate an unfairly one-sided cross-license.[17] More dangerously, a SEP owner can leverage the injunction threat to exclude a rival altogether by intentionally raising its royalty demands beyond the price the rival is able to pay.

To suggest that injunction threats do not necessarily lead to above-FRAND royalties misses the point—undoubtedly, the injunction threat is likely to result in higher rates than those that would be negotiated in the absence of such a threat.[18] And whether the increased royalties violate FRAND is exactly the sort of case-by-case factual finding capable of being addressed by the Rule of Reason liability standard used in Section 2 cases.

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[15] *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d at 914; *see also Microsoft Corp. v. Motorola, Inc.,* 696 F.3d at 885 (characterizing FRAND as "a guarantee that the patent-holder will not take steps to keep would-be users from using the patented material, such as seeking an injunction"); *RealTek Semiconductor*, No. C-12-03451 (N.D. Cal. May 20, 2013) (enjoining SEP owner from seeking injunctive relief).

[16] *See* Statement of the FTC, *Robert Bosch*, FTC File No. 121-0081 (Nov. 26, 2012) ("[B]efore its acquisition by Bosch, SPX reneged on a [FRAND] licensing commitment . . . by seeking injunctions against willing licensees of [its] SEPs."); FTC Response to Commenters, *Motorola Mobility*, File No. 121-0120 (July 23, 2013).

[17] This is why a court recently held that FRAND must be determined based on the value of a patent standing on its own prior to inclusion in the standard. *See* Findings of Fact and Conclusions of Law, *Microsoft Corp. v. Motorola Inc.,* No. C10-1823, Docket No. 681 at 37 (W.D. Wash. Apr. 25, 2013) (concluding that the royalty must be determined separate and apart from the value of the standard).

[18] *See* FTC, Analysis of Proposed Consent Order to Aid Public Comment, *In the Matter of Motorola Mobility LLC and Google Inc.*, File No. 121-0120 (Jan. 3, 2013) ("[Because of Google's conduct] prices would likely rise both because of higher royalties and because of less product-market competition. Ultimately, end consumers may bear some share of these higher costs, either in the form of higher prices or lower quality products.").

In fact, it was the mere threat of supra-competitive royalties for SEPs that recently prompted the White House to issue the first veto in decades overruling an exclusion order from the International Trade Commission. The United States Trade Representative expressed concern about:

> potential harms that can result from owners of [SEPs] who have made a voluntary commitment to license SEPs on [FRAND] terms, gaining undue leverage and engaging in 'patent hold-up,' i.e., asserting the patent to exclude an implementer of the standard from a market to obtain a higher price for use of the patent than would have been possible before the standard was set, when alternative technologies could have been chosen.[19]

In the long run, the possibility of injunctions also undermines confidence in the standard-setting process that underlies the modern economy. In a letter to commenters regarding its consent order with Google, the FTC explained that "the breach of a FRAND commitment risks substantial harm to the competitive process and consumers . . . if companies cannot rely on a FRAND commitment to ensure access to SEPs on FRAND terms, they are less likely to invest in implementing the standard, which can harm competition, innovation, and consumers."[20] Similarly, courts have cited the importance of protecting the standard-setting process when barring SEP owners from seeking to enforce injunctive relief.[21] This is exactly correct.

IV. INAPPLICABILITY OF *NOERR-PENNINGTON* DOCTRINE

Owners of SEPs that seek anticompetitive injunctions are not protected by the *Noerr-Pennington* doctrine, which holds that the good faith pursuit of litigation is protected by the First Amendment to the United States Constitution.[22] As discussed above, the SEP owner's FRAND commitment is a voluntary waiver of the patent owner's right to exclude and, with it, the right to seek an injunction against a potential licensee—and thus, of the First Amendment right to petition that underlies the right to bring claims for injunctive relief. The First Amendment does not protect SEP owners from the consequences of a freely entered-into contract.[23]

That much seems beyond controversy. However, *Noerr-Pennington* also does not protect a SEP owner from an antitrust claim under Section 2 based on the SEP owner's request for an injunction. After all, the SEP owner's FRAND promise is not merely a simple contract or a promise to license—it is intended as a preemptive antitrust fix in the context of concerted

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[19] Letter from Hon. Michael Froman, United States Trade Representative, to Hon. Irving Williamson, Chairman, United States International Trade Commission, August 3, 2013 (quoting the joint DOJ/PTO Policy Statement issued on January 8, 2013).

[20] FTC Response to Commenters, *Motorola Mobility*. As in *Bosch*, the FTC located its authority in Section 5 of the FTC Act, but the harm is the same whether analyzed under Section 5 or under Section 2 of the Sherman Act.

[21] *See, e.g., RealTek Semiconductor* (citing the improper leverage in licensing negotiations that arose from the threat of an injunction).

[22] *See Eastern Railroad Presidents Conference v. Noerr Motor Freight*, 365 U.S. 127 (1961); *United Mine Workers of Am. v. Pennington*, 381 U.S. 657 (1965).

[23] *See, e.g.,* Order on Parties' Summary Judgment Motions, *Microsoft Corp. v. Motorola, Inc.,* No. C10-1823 (W.D. Wash. Aug. 12, 2013) ("Motorola's RAND commitment is analogous to a covenant not to seek injunctive relief in circumstances that would amount to a breach of the duty of good faith and fair dealing. Thus, Motorola has limited, by contract, its right to seek injunctive relief.").

standard-setting action, creating a duty of good faith and fair dealing, and an antitrust complaint in response to its breach is entirely proper.

Moreover, once a FRAND commitment has been made, the enforcement agencies have found that there is no objective basis for seeking an injunction against a willing licensee—meeting the first prong of the "sham litigation" exception to *Noerr-Pennington*.[24] If (as is likely where a SEP owner breaches its FRAND obligation) discovery supports the second, subjective intent prong of the sham litigation test, *Noerr* would not apply. And some courts have found subjective intent in a "policy of starting legal proceedings without regard to the merits and for the purpose of injuring a market rival," which would apply, for example, to a SEP owner with a pattern of injunction suits aimed at frustrating a competitor regardless of whether a particular suit within the pattern has merit.[25]

V. CONCLUSION

In analyzing the effect of breaches of the FRAND commitment for SEPs, it is important to bear in mind the real world examples we have before us. There is little doubt that, practically speaking, requests for injunctive relief from Motorola and Samsung have had less to do with infringement by Microsoft and Apple, respectively, than with competition over mobile devices and responding defensively to valid infringement claims on differentiated patents.

Under a traditional antitrust analysis, and as applied by enforcement agencies, breaching a FRAND promise by seeking an injunction against a willing licensee violates Section 2 of the Sherman Act. Standard-setting, with its vast impact on innovation and competition, is quintessentially an area where antitrust law can and should be active. The agencies should not hesitate to pursue FRAND violations to protect competition.

[24] *See Professional Real Estate Investors v. Columbia Pictures Industries*, 508 U.S. 49 (1993).

[25] *See USS-POSCO Indus. v. Contra Costa Cty Bldg. & Constr. Trades Council*, 31 F.3d 800, 810-11 (9th Cir. 1994).