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Apples and Oranges: Comparing Assertions of SEPs and Differentiating Patents from an Antitrust Perspective

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I. INTRODUCTION

Intellectual property and antitrust laws share a common goal of fostering innovation while protecting competition.[2] In the United States, the Patent Act bestows on the patent holder the right to exclude others from making, using, selling, or importing the patented invention, as well as the right to exploit the patented invention through licensing it to others.[3] The Sherman Antitrust Act, while targeted toward anticompetitive conduct, does not restrict the long recognized right to freely exercise one's independent discretion to deal, or to announce in advance the circumstances under which he or she will refuse to deal.[4] Indeed, the possession of monopoly power, and the concomitant charging of monopoly price, is not only lawful; it is an important element of the free-market system.[5]

Consequently, patent rights are as fundamental to preserving research and innovation as the antitrust laws are to preserving free market competition. Together these complementary bodies of law form a system that rewards risk taking and entrepreneurialism necessary for economic growth.

Intellectual property and antitrust laws also share a common goal of preventing conduct that harms competition. In the ordinary course, obtaining, licensing, and enforcing patents is beneficial conduct that should be encouraged, not impeded, by antitrust law. There are situations, however, where separating conduct that is harmful from conduct that is beneficial is difficult because there is the potential for both anticompetitive harms and economically beneficial effects.

Collaborative standards-setting activities—where companies come together in a forum to agree on industry standards that require the use of patented technology—is a perfect example of a such situation. Accordingly, the formal standards-setting process warrants strong protection

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[2] *See, Atari Games Corp. v. Nintendo of Am., Inc.,* 897 F.2d 1572, 1576 (Fed. Cir. 1990) ("The aims and objectives of patent and antitrust laws … are actually complementary, as both are aimed at encouraging innovation, industry, and competition").

[3] *See,* 35 U.S.C. § 154(a)(1). According to the Supreme Court, "[a] patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly." *Brulotte et al. v. Thys Co.*, 85 S. Ct. 176, 179 (1964).

[4] *See, U.S. v. Colgate & Co.*, 250 U.S. 300, 307-08 (1919).

[5] *Verizon Communications, Inc. v. Law Offices of Curtis V. Trinko*, LLP, 540 U.S. at 407-08 ("To safeguard the incentive to innovate, the possession of monopoly power will not be found unlawful unless it is accompanies by an element of anticompetitive conduct.")

against related anticompetitive conduct by holders of standard-essential patents ("SEPs") that have expressly committed to license those patents on fair, reasonable, and non-discriminatory ("FRAND") terms in return for their adoption in a standard. This is especially true today, when licensing rates for SEPs are growing out of proportion as some SEP holders demand increasingly exorbitant rates.[6]

It is even more important, however, that the rationale for imposing antitrust-based limits on patents in the standards context be well-understood and distinguished from the application of antitrust-based limits on the ordinary assertion and enforcement of patents relating to non-standard essential patents (*e.g.,* differentiating, proprietary technology). Differentiating patents, unlike SEPs, affirmatively promote innovation and thus the ordinary enforcement of such patents should not be constrained under antitrust laws, no matter how valuable those patents may be. Indeed, where these circumstances exist, the holder of a differentiating patent should be free to license and exploit its patents as it sees fit so as to ensure that the incentive-creating function of the exclusive patent rights are maintained.

II. SEPARATE PATHS TO PATENT MARKET POWER

A patent grants the patent holder a right to exclusively practice an invention for a limited period of time, or to license it for a royalty that reflects the value of the invention. While a patent has sometimes been described as granting a "monopoly," in practice very few patents provide their owners with significant "market power" in the antitrust sense, which is defined as the ability to raise prices above those that would be charged in a competitive market.[7] This is an especially important distinction for patented inventions in technical fields such as software, where there are almost always alternative ways to achieve a given functionality or result. Indeed, software is accurately described as "plastic" because it can be designed and used in a variety of ways.

Patents in general achieve market power by one of two divergent paths. First, a patented invention may enjoy high demand because it is technically superior, or it is in high demand with consumers, *and* the relevant patent or patents cannot easily be designed around. Such inventions (especially those that are software-based) are rare but patents on them can be very valuable to their owners, either as a means to differentiate their products from the competition by reserving the patented invention for themselves, or by monetizing the invention by licensing broadly to competitors for use in their products. The possibility to create and patent such "differentiating" inventions forms the bedrock for the patent system of incentives and rewards for innovation in our economy. Innovation-based competition and differentiation in turn provide consumers with better, more diverse, products to choose from.

This is also why, in the absence of any indication of activities such as illegal tying, fraud on the Patent and Trademark Office, or sham litigation, a patent holder may enforce the statutory right to exclude others from making, using, or selling its proprietary technology, or

[6] *See,* "SEP License Fees Are Getting Out of Hand, Officials Say," http://www.law360.com/ip/articles/631607?nl_pk=f8fe6c87-d8fa-4aaa-bffc-d31217e013d5&utm_source=newsletter&utm_medium=email&utm_campaign=ip

[7] *See e.g., Ill. Tool Works Inc. v. Indep. Ink, Inc.,* 547 U.S. 28, (2006).

refuse to license the claimed invention, free from liability under the antitrust laws.[8] And because a patent grants the right to exclude, a patent owner has the legal right to charge a monopoly price for licensing that technology: "A patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly."[9] Indeed, compulsory licensing of patents is rare in the United States; it has "often has been proposed, but it has never been enacted on a broad scale."[10] In Europe, a refusal to license may be illegal only in "exceptional circumstances."[11]

On the other hand, a patent holder can achieve market power if the patented invention is included in a technical specification or standard and implementers of the standard are then "locked in" to using the invention in order to conform to the standard.[12] When this occurs, the patent becomes a SEP. Because a SEP is technically essential to the implementation of (or compliance with) a standard, alternative approaches that were not reflected in the standard cannot constrain the market power of the SEP. If the standard is widely adopted, such as 4G, LTE, 802.11 (WiFi), or H.264 (video streaming), a patent that enjoyed little or no market power before inclusion in the standard gains significant market power after the standard's adoption because implementers become locked in to the standard. This is true even if the technology covered by the SEP is a minor part of the standard.

> When the standard becomes widely used, the holders of SEPs obtain substantial leverage to demand more than the value of their specific patented technology. This is so even if there were equally good alternatives to that technology available when the original standard was adopted. After the standard is widely implemented, switching to those alternatives is either no longer viable or would be very costly.[13]

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[8] *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1327 (Fed. Cir. 2000). *See also Abbott Labs. v. Teva Pharms. USA, Inc.*, 432 F. Supp. 2d 408, 430 (D. Del. 2006); *Intergraph Corp. v. Intel Corp.*, 88 F. Supp. 2d 1288, 1293 (N.D. Ala. 2000).

[9] *Brulotte et al. v. Thys Co*., 85 S. Ct. 176, 179 (1964).

[10] Fiona Scott-Morton, Deputy Assistant Atty Gen., Antitrust Div., U.S. Dep't of Justice, *Speech: "The Role of Standards in the Current Patent Wars*, at 2 (Dec. 5, 2012), *available at* http://www.justice.gov/atr/public/speeches/289708.pdf (last accessed 3/13/2015) (hereinafter "*Scott-Morton*"); *See e.g., Dawson Chem. Co. v. Rahm & Haas Co.,* 448 U.S. 176, 215 (1980).

[11] *See, IMS Health GmbH & Co. OHG v. NDC Health GmbH & Co. KG*, Case C-418/01 [2004] ECR I-5039.

[12] Standards exist as a necessary exception to the competitive marketplace. *See* U.S. D.O.J. & F.T.C., *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition*, at 33 (April 2007) (hereinafter "*Joint Agency Policy Statement*"). Antitrust Div., U.S. Dep't of Justice, Business Review Letter Submitted to the IEEE, at 5 (Dated Feb. 2, 2015) (hereinafter "*IEEE Review Letter*"). *See also* Christine A. Varney, Assistant Atty Gen., Antitrust Div., U.S. Dep't of Justice, *Speech: Promoting Innovation Through Patent and Antitrust Law and Policy*, at 5-6 (May 26, 2010), *available at* http://www.justice.gov/atr/public/speeches/260101.htm (last accessed 3/14/2015) (hereinafter "*Varney*"); Renata Hesse, Deputy Assistant Atty Gen., Antitrust Div., U.S. Dep't of Justice, *Speech: Six "Small" Proposals for SSOs Before Lunch*, at 7-8 (Oct. 10, 2012), *available at* http://www.justice.gov/atr/public/speeches/287855.pdf (last accessed 3/14/2015) (hereinafter "*Hesse*").

[13] *Microsoft Corp. v. Motorola, Inc.*, 2013 U.S. Dist. LEXIS 60233, *37 (W.D. Wash. Apr. 25, 2013). *See also* European Commission Competition Policy Brief on Standard Essential Patents (June, 2014) (http://ec.europa.eu/competition/publications/cpb/2014/008_en.pdf) (last accessed 3/14/2015) ("SEPs can, however, confer significant market power on their holders. Once a standard has been agreed and industry players have invested heavily in standard-compliant products, the market is de facto locked into both the standard and the relevant SEPs. This gives companies the potential to behave in anti-competitive ways, for example by "holding up"

When a patent is standard-essential, the focus is no longer on the preclusive effect of the patent itself, but rather the competitive impact of not being able to implement the entire standard.

III. ANTITRUST CONCERNS RAISED BY SEPS

Some SEP owners demand more than the value of the patented technology in an attempt to capture the total value of the standard itself. Other SEP owners choose to leverage the value of complementary investments. *i.e.*, the negative "value" of avoiding switching costs. Both situations are referred to as "patent holdup."[14]

In the standards context, patent holdup raises antitrust concerns because "incorporated, or standard-essential, patents are selected as part of a collaborative process, as opposed to the normal functioning of a competitive market."[15] "A standard … by definition, eliminates alternative technologies. As a result, a patent's value is significantly enhanced after the patent is incorporated in a standard."[16] The Standard Setting Organization's ("SSO") decision alters the competitive conditions of the market because it marginalizes potential substitutes to the technology adopted in the standard and locks implementers into using the standardized technology. In such circumstances, the potential of SEP owners breaching a FRAND promise (discussed below) and exploiting the *ex post* market power conveyed by the collaborative standardization process implicates antitrust concerns. By way of contrast, differentiating patents do not automatically confer significant market power because alternative technologies usually exist. Further, even where such patents have market power, the patent holder has a basic right to exploit the patent for full value, including a monopoly price.

Holdup harms competitors and consumers alike because competition is harmed when SEPs are asserted as a means to exclude companies from the downstream markets in an effort to benefit the SEP owner's downstream products Alternatively, competition is harmed when a SEP owner exploits the *ex post* market power conveyed by the standards-setting process to charge supra-competitive royalties to standards implementers (many of whom are competitors of the patent holder). Holdup also threatens the diffusion of valuable standards, undermines the standard-setting process, and harms consumers to the extent that excess costs are passed on to them.[17] In contrast, so-called "hold out" (i.e., refusing to take a license to valid and infringed SEPs) by a potential licensee acting alone does not typically raise an antitrust concern.

Competition is not harmed, however, when a potential licensee disputes whether licensing terms are FRAND, including related issues such as patent validity, infringement, or enforceability. In such circumstances, the licensor is simply forced to pursue whatever legal remedies it would pursue with any other patent. In addition, a FRAND royalty awarded as damages (as well as a compulsory future royalty) in a patent infringement enforcement action is

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users after the adoption of the standard by excluding competitors from the market, extracting excessive royalty fees, setting cross-licence terms which the licensee would not otherwise agree to, or forcing the licensee to give up their invalidity or non-infringement claims against SEPs.")

[14] *See id.*

[15] Joint Agency Policy Statement at 33-39; *Scott-Morton* at 5-7.

[16] *Research in Motion Ltd. v. Motorola, Inc.*, 644 F. Supp. 2d 788, 793 (N.D. Tex. 2008).

[17] *Microsoft Corp. v. Motorola, Inc.*, 2013 U.S. Dist. LEXIS 60233, *37-39 (W.D. Wash. Apr. 25, 2013).

available as a complete remedy for "hold out" to any SEP holder able to prove infringement and defend the validity of its SEP—the very compensation to which the SEP holder has pledged to limit itself when making a FRAND commitment. That enforcement burden is no greater on the holder of an SEP than on the holder of any other patent.

Holdup is a classic *ex ante/ex post* problem with standards. *Ex ante*, implementers had access to technology alternatives but industry representatives collaboratively agreed to include the SEP in the standard based on the agreement that such SEPs would be available on FRAND terms. *Ex post*, if the SEP owner who has gained market power reneges on its agreement to license to implementers on FRAND terms, it may leverage that power to insist on unreasonable licensing terms and conditions. If the implementers refuse to comply with the SEP holder's unreasonable demands, the holder may threaten injunctive or other exclusionary relief in order to pressure the implementers to accept exorbitant royalty demands and other unreasonable terms.[18] Companies engaged in holdup know that many potential licensees, especially less resourceful implementers, will capitulate to the demands of heavily resourced and litigation-capable SEP holders rather than risk exclusion from the market.[19]

As has recently been reiterated by U.S. antitrust regulators, holdup is not—as some have suggested—a strictly theoretical problem.[20] There are a number of court decisions, as well as investigations by competition regulators, that highlight questionable conduct by a number of large SEP holders. In recent public testimony at the United States International Trade Commission, an economic expert for InterDigital (a large publicly traded patent assertion entity) testified that InterDigital believes that it is entitled to seek and obtain a premium over the pre-standardization value of its declared SEPs. According to the testimony, this is a reward for having "won" the standardization "tournament."[21] InterDigital also sought ITC exclusion orders to pressure the implementer to accept such licensing terms.

Similarly, the European Commission found that Motorola violated EU competition laws by demanding unreasonable terms and seeking injunctive relief against Apple, a willing licensee, on the basis of Motorola's SEPs. Apple's clear indication of its willingness to enter into a licensing agreement and to pay adequate compensation, meant there was no need or justification for Motorola to have recourse to an injunction to protect its commercial interests. It also ran counter to public interest when Apple had to renounce its legitimate rights to challenge the validity and infringement of Motorola's SEPs. Royalty payments for SEPs that are either invalid or not used may unduly increase production costs, which in turn may lead to higher prices for consumers.[22]

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[18] *Ericsson, Inc. v. D-Link Sys.*, 773 F.3d 1201, 1209 (Fed. Cir. 2014); *See also* Analysis of Proposed Consent Order to Aid Public Comment, *In the Matter of Robert Bosch GmbH*, FTC No. 1210081(Apr. 24, 2013) at 4, *available at* https://www.ftc.gov/sites/default/files/documents/cases/2013/04/121126boschanalysis.pdf (hereinafter "*Bosch*").

[19] *See generally Competition Policy Brief*; Amicus Brief Submitted by the U.S. Federal Trade Commission in *Apple Inc. et al. v. Motorola, Inc.et al.*, *available at* http://www.ftc.gov/sites/default/files/documents/amicus_briefs/apple-inc.and-next-software-inc.v.motorola-inc.and-motorola-mobility-inc./121205apple-motorolaamicusbrief.pdf (last accessed on 3/15/2015)

[20] Mlex, "DOJ, FTC Officials Defend Focus on Patent Hold Up", March 13, 2015.

[21] ITC No. 337-TA-613.

[22] European Commission Competition Policy Brief on Standard Essential Patents (June, 2014) (http://ec.europa.eu/competition/publications/cpb/2014/008_en.pdf) (last accessed 3/14/2015).

More recently, China's NDRC found that Qualcomm's SEP-related licensing practices violated its FRAND commitments and were anticompetitive.[23]

In addition to patent holdup, another threat imposed by SEPs is royalty stacking. "Royalty stacking can arise when a standard implicates numerous patents, perhaps hundreds, if not thousands. If companies are forced to pay royalties to all SEP holders, the royalties will stack on top of each other and may become excessive in the aggregate."[24]

IV. THE FRAND COMMITMENT FOR SEPS: A PRO-COMPETITIVE EXCEPTION TO THE GENERAL RIGHT NOT TO DEAL WITH OTHERS OR TO CHARGE A MONOPOLY PRICE ON A PATENT

These and other similar concerns are why most SSOs have an IPR policy that seeks a commitment from contributors to the standard that they will offer licenses to their SEPs on FRAND terms. FRAND is a voluntary agreement by the SEP holder to all potential licensees to cap royalty rates at reasonable levels and not engage in unreasonable discrimination.[25] "FRAND commitments by SSO members are critical to offsetting the potential anticompetitive effects of standards setting while preserving its procompetitive aspects."[26] "Such rules help to ensure that standards do not allow essential patent owners to extort their competitors or prevent competitors from entering the marketplace."[27]

FRAND commitments restrain the exercise of market power gained by a firm when its patent is included in a standard and the standard is widely adopted in the market.[28] This includes the recognition that under a FRAND promise the SEP holder forgoes the right to exclude through an injunction against a potential licensee that is willing to take a truly FRAND license,

[23] "NDRC found Qualcomm guilty of abuse of market dominance and implementing monopolistic activities that eliminate and restrict competition. The following activities were deemed illegal: (1) charging unfairly excessive patent royalties, (2) tying patents that are not standard-essential patents in the telecom industry without a legitimate reason, and (3) imposing unreasonable conditions in the sale of baseband chips. During the investigation, Qualcomm cooperated with the authorities and raised a series of rectification measures including the following: (1) calculating patent royalties on the basis of 65 percent of net wholesale price of the device sold in China, (2) when Qualcomm licences its patent to Chinese licensees it will provide a list of patents and not charge royalties over patents that have already expired, (3) Qualcomm will no longer require that Chinese licensees provide a compulsory (and royalty-free) cross-licence for Qualcomm customers, (4) where wireless standard-essential patents are concerned, Qualcomm will not tie in non-standard-essential patents without a legitimate reason, and (5) unreasonable conditions will not be included in the licence agreements when selling baseband chips, such as conditions prohibiting licensees from challenging the terms in the licence agreement." Excerpts from article by Peter Korne at http://www.law360.com/articles/632623/china-s-qualcomm-decision-sends-mixed-messages.

[24] *Ericsson, Inc. v. D-Link Sys.*, 773 F.3d 1201, 1209 (Fed. Cir. 2014).

[25] *Microsoft Corp. v. Motorola, Inc.*, 864 F. Supp. 2d 1023, 1032-33 (W.D. Wash. 2012) ("These commitments are clearly designed to benefit potential licensees of Motorola's standard essential patent by ensuring that such patents are readily accessible to everybody at reasonable rates.").

[26] Analysis of Proposed Consent Order to Aid Public Comment, *In the Matter of Motorola Mobility, Inc. v. Google, Inc.*, FTC No. 1210120, at 2 (Jul. 24, 2013), *available at* https://www.ftc.gov/sites/default/files/documents/cases/2013/01/130103googlemotorolaanalysis.pdf (last accessed on 3/15/2015) (hereinafter "*Google*").

[27] *Microsoft Corp. v. Motorola, Inc.*, 864 F. Supp. 2d 1023, 1027 (W.D. Wash. 2012).

[28] *See Google* at 2.

because a FRAND promise is recognition that monetary damages will sufficiently compensate the SEP owner in the event an agreement is not reached.[29]

Nonetheless, there are a relatively small but vocal number of companies whose corporate revenues are largely dependent on leveraging SEPs of only marginal importance within an adopted standard to seek to force implementers to agree to a range of unreasonable licensing terms.[30] Increasingly, however, private actions brought against SEP owners making excessive royalty demands have resulted in a number of helpful decisions by courts and have triggered investigations by competition regulators in multiple countries (*e.g.*, Europe, the United States, India, China, and Brazil).

For example, after a bench trial in *Microsoft Corp. v. Motorola Mobility, Inc*, the court concluded that the appropriate FRAND royalty for a license to Motorola's patents, based on their value independent from their adoption in the relevant standards, would be about $2 million annually. Following that determination, a jury concluded that Motorola's initial royalty demand of $4 billion for those patents was so grossly excessive that it breached the promise made by Motorola to license its SEPs on FRAND terms. Seeking injunctions on SEPs, unreasonable rates for SEPs, non-SEPs for SEPs reciprocity demands, and other unacceptable terms can be treated as a breach of the FRAND obligation,[31] as an unfair deceptive trade practice,[32] as an abuse of a dominant position,[33] as unsupported by damages principles,[34] and as a Section 2 antitrust claim.[35]

Excessive royalty demands for SEPs of marginal value are also a growing concern among regulatory agencies.[36] Competition agencies in the United States and Europe have generally encouraged SSOs to clarify their patent policies and the effect of a FRAND commitment in order

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[29] *See, Realtek Semiconductor Corp. v. LSI Corp.*, 2013 WL 2181717, at *6-7 (N.D. Cal. May 20, 2013) ("While an injunction may be warranted where an accused infringer of a standard-essential patent outright refuses to accept a RAND license, contrary to defendants' assertion here, there is no indication that Realtek is not willing to accept a RAND license."). Over the past several years, global competition authorities (particularly the United States and Europe) have brought actions against SEP abusers in an effort to address market distortions resulting from SEP abuse. For example: *In the Matter of Motorola Mobility, Inc. v. Google, Inc.*, FTC No. 1210120 (Decision and Order) (Jul. 24, 2013), *available at* https://www.ftc.gov/sites/default/files/documents/cases/2013/07/130724googlemotorolado.pdf (requiring Google to stop seeking injunctions in the United States for SEPs, if the prospective licensee agrees to have the dispute adjudicated); *Case COMP/M.6381, Google/Motorola Mobility* (requiring Google/Motorola to stop seeking injunctions in the E.E.A. for SEPs, unless against unwilling licensees), and EC April 29, 2014 Press Release "Antitrust: Commission Accepts Legally Binding Commitments by Samsung Electronics on Standard Essential Patent Injunctions," *available at* http://europa.eu/rapid/press-release_IP-14-490_en.htm) (requiring Samsung to stop seeking injunctions in the E.E.A. for SEPs, if the prospective licensee agrees to have disputes adjudicated).

[30] The analysis, of course, is different for patents that possess *ex ante* market power prior to adoption in the standard, as well as patents that form the core of a given standard.

[31] *See Research in Motion Ltd. v. Motorola, Inc.*, 644 F. Supp. 2d 788, 797 (N.D. Tex. 2008).

[32] *See Google* at 4-6.

[33] *See Case COMP/M.6381, Google/Motorola Mobility* at ¶¶113, 132.

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

[35] *See generally* Greg Sivinski, *Patently Obvious: Why Seeking Injunctions on Standard-Essential Patents Subject to a FRAND Commitment Can Violate Section 2 of the Sherman Act*, CPI ANTITRUST CHRON. (Oct. 2013)

[36] *See, e.g., Ericsson, Inc. v. D-Link Sys.*, 773 F.3d 1201, 1209 (Fed. Cir. 2014); *Scott-Morton* at 5-8; *Varney* at 5-7; *Hesse* at 4-5.

to minimize the risk of patent holdup. Among other things, they have advocated that SSOs should consider a "safe harbor" approach whereby the SEP holder cannot seek injunctive relief if the prospective licensee is willing to be bound by a court adjudication of FRAND terms and related issues.

In response, a well-resourced group of prominent SEP holders aggressively opposes any changes to SSOs' policies that would provide any such clarity regarding FRAND commitments, including limits on their ability to seek injunctive relief against licensees—even those who are willing to take a truly FRAND license but who want to raise objections to the SEP holder's licensing demands and related issues. This group of SEP holders also opposes high-level principles framing what is "reasonable" compensation that are consistent with several court decisions, including the recent Federal Circuit decision in *Ericsson v. D-Link*, and limits on cross-licensing demands.

These companies—several of whom have been or are currently under investigation by competition regulators in different countries for allegedly abusing FRAND-encumbered SEPs—have been particularly critical of the Institute of Electrical and Electronics Engineers' (IEEE) activities. The IEEE recently requested and received a Business Review Letter from the U.S. Department of Justice ("DOJ") stating it had no intention of challenging an update to IEEE's IPR Policy. This policy update clarifies the effect of a FRAND commitment in ways that are largely consistent with current case law and competition authorities' public statements. Among other changes, the policy was clarified to prohibit SEP holders who made a FRAND commitment from seeking to exclude implementers from using the standard until a court has adjudicated related disputes between the parties, and to define a 'Reasonable Rate as appropriate compensation . . . excluding the value, if any, resulting from the inclusion of [the patent claim's] technology in the IEEE standard.'[37]

This group also criticizes the DOJ's conclusion that, "the [IEEE] Update has the potential to benefit competition and consumers by facilitating licensing negotiations, mitigating hold up and royalty stacking, and promoting competition among technologies for inclusion in standards. The Department cannot conclude that the Update is likely to harm competition."[38] InterDigital, for example, has "advised the IEEE that [it] objects to their entirely new policy on patents and, going forward, on a case-by-case basis, will provide alternative licensing assurances to those specified in the 2015 policy."[39]

To the extent a few members push the IEEE into shelving its new policy and backing away from effective safeguards against patent holdup, they become a sellers' cartel—a combination aimed at keeping license royalties at supra-competitive levels. The same could be said in the unlikely event these members are allowed to act collectively to submit individualized non-conforming assurances as a *de facto* policy exception to salvage opportunities for patent holdup.

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[37] *IEEE Review Letter at* 11.

[38] *Id.* at 16.

[39] http://www.iam-media.com/Blog/Detail.aspx?g=8c9676dd-6bbd-4d6c-b3e5-9a5ddeb36581.

Despite this opposition, the fact remains that the FRAND principle—when adhered to—mitigates the risk of patent holdup based on SEPs contributed to collaboratively developed standards. This principle deserves strong enforcement and support by agencies and the courts to protect implementers and consumers, and support the value and objectives underlying collaborative standards efforts.

V. DIFFERENTIATING PATENTS AS "DE FACTO" SEPS: A DANGEROUS INTRUSION INTO THE GENERAL RIGHT NOT TO DEAL WITH OTHERS OR TO CHARGE A MONOPOLY PRICE ON A PATENT

The FRAND principle and other antitrust limits on enforcement and assertion of SEPs, while important, are necessarily exceptions that grow out of particular circumstances of collaborative industry standard-setting. Where those circumstances do not exist, the patent owner should be free to license and exploit its patents as it sees fit so as to ensure that the incentive-creating function of the exclusive patent rights are maintained. Avoiding confusion between SEPs and differentiating patents is critical to ensuring that the goals of both the antitrust and patent systems are achieved.

This confusion manifests itself when some companies that lack a significant patent portfolio, or that profit from advertising as opposed to selling products and therefore want the platforms for their advertisements to be distributed to consumers as the lowest possible cost (*e.g.*, unburdened by patent royalties), advocate that a differentiating patent holder's rights to exclude others or to exploit the patented invention for a royalty must be curtailed by the imposition of FRAND principles. The stated rationale is that such differentiating patents—which are not SEPs in connection with any collaborative, SSO standards-setting efforts— are what these companies call "commercially essential" patents because they are seen as valuable inventions in the marketplace, sometimes associated with "*de facto* standards" Google, for example, wrote a letter to the U.S. Senate Judiciary Committee in 2012 contending that numerous Apple differentiating patents are so crucial to consumer preferences that treating them as anything other than a SEP would be harmful to competition.[40]

Efforts such as these, which conflate FRAND-encumbered SEPs that were subject to a collaborative, standards-setting process with differentiating patents, strain competition law analysis and are a transparent attempt to circumvent narrowly drawn exceptional circumstances tests traditionally used to consider when, if ever, a patent holder should be compelled to license a patent to a competitor. Unlike an industry standard, in which various constituents collaborate to agree on a common standard to facilitate a common objective, a so-called "*de facto*" standard results when the marketplace gravitates naturally towards a single technology. Even if a patented proprietary invention can become a "*de facto* standard" because it is technologically superior or because consumers value it in the marketplace, it nonetheless remains a proprietary invention

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[40] *See*, John Paczkowski, "Google Says Some Apple Inventions Are so Great They Ought to be Shared," *available at* http://allthingsd.com/20120720/google-claims-popularity-has-made-some-apple-patents-de-facto-essentials/ (last accessed on March 13, 2015) (hereinafter "*Google Letter*").

and any patents on it remain differentiating patents. In this context, any market power that may arise in such patents is lawfully acquired.[41]

In other words, unlike differentiating patents with market power achieved through competition with available substitutes, many SEPs achieve their market power through collective agreements that, as a practical matter, eliminate these substitutes. FRAND commitments are a special, unique treatment for SEPs designed to mitigate or prevent exploitive behavior that can come about as a result of artificially granted power.[42] "[M]eaningful safeguards" against abuse, include the FRAND commitment, are therefore the foundation for the judge-made exemption under which those participating in SSO standard-setting operate.[43] FRAND commitments relating to differentiating patents play no such role, and attempts to equate them to FRAND-encumbered SEPs are fundamentally at odds with the basic tenet that market power alone does not "impose on the intellectual property owner an obligation to license the use of that property to others."[44]

There are other serious problems with imposing or inferring the existence of FRAND licensing commitments with regard to proprietary patent-protected technologies. Under this scenario, the patent at issue is not essential to implementation of a voluntarily joined collaborative standard, but instead is deemed to be essential to marketability of a product (most likely a competitor's product*)*. This destroys the potential to compete or differentiate products based on innovation, which is a "strong driver of competition and innovation that can facilitate the development of leap frog technologies." It also ignores the "big difference between technology that became powerful because it was adopted as part of a formal standard when alternatives may have been available and technology that become popular because it differentiated a device in a way consumers desired." And finally, it ultimately fails to appreciate that "non-standardized technologies differentiate devices, create competition and drive innovation in the marketplace."[45]

Convenient but misleading labels such as "commercially essential patent" or "*de facto* SEP" thus inappropriately blur the important lines between the role, scope, and framework of collaborative standards development within an industry (which can, absent safeguards, raise legitimate competition concerns). Such labels also impede the individual development of

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[41] *See, e.g., United States v. Grinnell Corp*., 384 U.S. 563, 570-571 (U.S. 1966) ("The offense of monopoly under §2 of the Sherman Act [requires] the willful acquisition or maintenance of [market] power, as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident."

[42] *See, Morton* at 5-8.

[43] Broadcom *Corp. v. Qualcomm, Inc.*, 501 F.3d 297, 309-10, 313-14 (3d Cir. 2007 (violation of FRAND license commitment "is actionable anticompetitive conduct"); *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 501 (1988) ("[S]tandard-setting organizations have traditionally been objects of antitrust scrutiny" and must operate "through procedures that proven the standard-setting process from being biased by members with economic interests in stifling production competition"); *Am. Soc. Of Mech. Engineers, Inc. v. Hydrolevel Corp.*, 456 U.S. 556, 571-72 (1982) (SSOs "can be rife with opportunities for anticompetitive activity," especially if operated "without any meaningful safeguards.").

[44] DOJ and FTC, Antitrust Guidelines for the Licensing of Intellectual Property at 4 (1995).

[45] *See, Morton* at 8.

innovative, proprietary, and differentiating technology by companies that allows them to offer superior products that better satisfy the needs of their customers.

Furthermore, companies make the choice to participate in voluntary, collaborative standards and agree to license their SEPs on FRAND terms with full knowledge of the constraints associated with this promise. It would be wholly inappropriate, and bad policy, to apply those same constraints outside of the standards-setting context to a patent holder's successful, proprietary, patented technology—just because competitors want to copy it, or get it for free. This unjustifiably undermines the fundamental tenants of patent law, reduces firms' ability to compete based on differentiating technologies, and ultimately leads to less choice and fewer innovative products for consumers.

Competition agencies in the United States and Europe have a firm grasp on the reasons why antitrust law constrains exploitation of SEPs while at the same time allowing assertions of differentiating patents, even those with market power. The DOJ, for example, recognizes that the holdup power of a differentiating patent owner does not stem from a collective decision by competitors: "Rather, it springs only from a single innovation deployed unilaterally by its owner, [and] this is the difference that causes F/RAND encumbered SEPs to be of concern to competition authorities including the Department of Justice."[46]

Unfortunately, competition agencies in China, Taiwan, and South Korea appear to be taking a different approach. They advocate that compulsory licensing and FRAND obligations should apply to differentiating patents that are "unavoidable" or "commercially essential" to competing products, without reference to traditional valuation methods and established antitrust standards for compulsory licensing elsewhere in the world.

In Microsoft's acquisition of Nokia Devices & Services, for example, MOFCOM found that certain Microsoft differentiating patents are essential to Android because "the vast majority of Android phone manufacturers in the Chinese market have difficulty avoiding … the patents due to their own technical limitations."[47] While Microsoft had widely licensed the affected patents under a longstanding voluntary licensing programs before the transaction, and thus was presumably willing to continue to license these patents under and at current programmatic rates, the important precedent for all patent holders is that Microsoft's differentiating patents were deemed indispensable and thus subject to compulsory license and price regulation out of purely commercial parochial interests of Chinese smartphone manufacturers.

Of even greater concern, on December 28, 2014, the South Korea FTC—without prior notice or an opportunity for public comment—revised its Guidelines on the Unfair Exercise of Intellectual Property.[48] The revised Guidelines define a "Standard Essential Patent" as a patent necessary to implement a "Standard Technology". They further define a "Standard Technology"

[46] *Id.*

[47] MOFCOM Public Notice 2014 No. 24, Public Notice on Anti-Monopoly Review Decision re Approving the Undertakings Concentration with Restrictive Conditions for Microsoft's Acquisition of Nokia's Devices & Services Business Case, April 8, 2014 at 7.

[48] *See generally* KFTC, Review Guidelines on the Unfair Exercise of Intellectual Property Rights, *available at* http://eng.ftc.go.kr/bbs.do?command=getList&type_cd=62&pageId=0401 (No. 21) (last accessed on 3/14/2015).

as any technology essential to a standard promulgated by a standards-setting organization, but also any technology that is "designated by the government" as a standard. This means that any proprietary technology within the grasp of the KFTC is subject to being "standardized" by government fiat. Also included in "Standard Technology" are any "technologies designated by a group of enterprises possessing technology of the same type" and "technologies actually used widely as the *de facto* standard in the relevant technology field."

These categories include any proprietary technology that has become, or is included in, other technology that is used widely, even if such use happened without the owner's knowledge or consent. If the proprietary technology is patented, the Guidelines arguably subject those patents to a compulsory license and other constraints under Korean antitrust law on the ground that they are "essential" to a "standard." The Guidelines ignore the key distinction described above, that that the patents have not been standardized through an SEP owner's participation in a standards-development process or voluntarily contributed to a recognized standards body subject to a promise to license on FRAND terms.

It is possible perhaps that the KFTC will rethink this aspect of its guidelines and open them up to public comment and revision. If not, the effect of this action—whether or not unintended—rewards free-riders and harms innovation in several key ways. First, it weakens the patent system globally by eroding patent owners' rights to exclude or exploit, and their ability to choose how to utilize their valid patent rights. Second, it removes a source of valuable new innovation by eliminating the responsibility of would-be infringers to "innovate around" any patent they do not want to license. Third, there are significant unintended effects. These revisions also have the potential to harm national competitiveness in Korea because they apply not only to foreign patent holders who are the nominal targets of the KFTC 2015 enforcement agenda, but also to large Korean industrial companies with their own significant patent portfolios in Korea.

This strikes at the heart of a differentiating patent holder's rights and may run afoul of existing international obligations, including the World Trade Organization ("WTO") requirements related to transparency as well as various provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights or the TRIPS Agreement. While TRIPS permits countries to implement measures to prevent the abuse of intellectual property rights, undue regulation of differentiating patents in circumstances such as these may exceed the authority contemplated by TRIPS and contravenes the spirit of the agreement.[49] Moreover, the regulatory efforts of these authorities could also run afoul of transparency obligations that are core to general WTO obligations and discipline.[50] Similarly, in the case of Korea, the provisions of the U.S.-Korea Free Trade Agreement expand on some of these provisions, including a required notice and comment period that were not followed in the case of the Guidelines.

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[49] *See* TRIPS Articles 8 and 40 (allowing adoption of measures to prevent anticompetitive licensing practices but only "consistently with the other provisions of this Agreement" regarding establishment of patent rights) as well as Article 31 (Other Use Without Authorization of the Right Holder) or compulsory licensing).

[50] *See* Chapters 18 and 21 of the US-Korea Free Trade Agreement. Regarding transparency and publication.

VI. CONCLUSION

Collaborative standards-setting activities are an important exception to the right to exploit a patent's market power and necessitate strong protections against related anticompetitive conduct by SEP holders subject to a FRAND commitment. This is especially true today, when licensing rates for SEPs appear to be growing and, in many instances, premised on the holdup value of such patents as opposed to their *ex ante* value prior to standardization.

This well-recognized problem, however does not provide a basis for imposing antitrust-based limits on the ordinary assertion and enforcement of patents relating to differentiating proprietary technology, which promotes innovation and should be encouraged under antitrust laws. Indeed, where these circumstances exist, the patent owner should be free to license and exploit its patents as it sees fit so as to ensure that the incentive-creating function of the exclusive patent rights are maintained.