DID *FTC v. QUALCOMM* CREATE AN ANTITRUST DUTY TO LICENSE STANDARD-ESSENTIAL PATENTS?

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I. INTRODUCTION

In May 2019, Judge Lucy H. Koh of the U.S. District Court for the Northern District of California issued her findings of fact and conclusions of law in *FTC v. Qualcomm*.[3] She found that Qualcomm violated the Sherman Act by, among other things, refusing to offer a license to its standard-essential patents ("SEPs") to rival manufacturers of baseband processor modems. Several months earlier, in November 2018, Judge Koh also granted the Federal Trade Commission's ("FTC's") motion for partial summary judgment, in which she found that the contracts between Qualcomm and two standard-setting organizations ("SSOs"), the Telecommunications Industry Association ("TIA") and the Alliance for Telecommunications Industry Solutions ("ATIS"), obligated Qualcomm to offer licenses to its SEPs to rival modem manufacturers.[4] In other words, Judge Koh found that Qualcomm's refusal to license rival modem manufacturers violated not only Section 2 of the Sherman Act, but also Qualcomm's contractual obligations pursuant to the commitment it made to offer licenses to its SEPs on reasonable and nondiscriminatory ("RAND") terms.

As of March 2020, the decision of the district court is on appeal to the Ninth Circuit. Nonetheless, some firms have argued that the reasoning adopted in *FTC v. Qualcomm* is not limited to Qualcomm, but instead applies to *every* RAND (or "FRAND") commitment and consequently ought to bind *every* SEP holder in the larger universe of *all* SSOs with respect to the larger universe of *all* implementers.[5] Some commentators have urged the European Commission to follow Judge Koh's lead and compel every SEP holder to offer licenses to its SEPs to component manufacturers, such as manufacturers of baseband processor modems.[6] The salient question that arises is, Did *FTC v. Qualcomm* create an antitrust duty for SEP holders to license SEPs? As we will explain, it did not.

3 *FTC v. Qualcomm Inc.*, 411 F. Supp. 3d 658 (N.D. Cal. 2019).

4 Order Granting FTC's Motion for Partial Summary Judgment, *FTC v. Qualcomm Inc.*, No. 5:17-cv-00220-LHK, 2018 WL 5848999, at *12 (N.D. Cal. Nov. 6, 2018) [hereinafter Partial Summary Judgment, 2018 WL 5848999].

5 See, e.g. First Amended Complaint for Breach of FRAND Commitments and Violations of Antitrust and Unfair Competition Laws, *Continental Auto. Sys., Inc. v. Avanci, LLC*, No. 5:19-cv-02520-LHK (N.D. Cal. July 23, 2019), ECF No. 97.

6 See, e.g. Dave Djavaherian, President, PacTech Law, P.C., Presentation at the FOSS Patents Component-Level SEP Licensing Conference: Access to FRAND Licences Under the Contract Laws (Nov. 12, 2019), https://www.scribd.com/presentation/435185173/19-11-12-Dave-Djavaherian-Presentation; Evelina Kurgonaite, Secretary General, Fair Standards Alliance, Presentation at the FOSS Patents Component-Level SEP Licensing Conference: Could Judge Koh's Reasoning Be Adopted Under Art. 102 TFEU? (Nov. 12, 2019), https://de.scribd.com/document/435184753/19-11-12-Evelina-Kurgonaite-Presentation.

II. THE ANTITRUST DUTY TO DEAL: GENERAL PRINCIPLES

The Sherman Act does not obligate a firm to deal with its rivals. In 1919, the U.S. Supreme Court acknowledged this basic principle in *Colgate*, when it emphasized that the Sherman Act "does not restrict the long recognized right of [a] trader or manufacturer . . . to exercise his own independent discretion as to parties with whom he will deal."[7] The Court reiterated this principle in subsequent decisions.[8] In *linkLine*, for example, the Court said that, "[a]s a general rule, businesses are free to choose the parties with whom they will deal, as well as the prices, terms, and conditions of that dealing."[9]

The principle that a firm has no antitrust duty to deal with its rivals applies with even greater force in the context of patent rights. The U.S. Patent Act expressly gives a patent holder the right to make exclusive use of its patented invention.[10] It would be antithetical to patent law to condemn as anticompetitive a patent holder's refusal to license its patents to a rival, as doing so would destroy the very incentive to innovate that a patent system seeks to create. Antitrust scholars and economists have long recognized that forcing a firm to share its patented technologies with its rivals would facilitate free riding, reduce incentives to invest in innovation, and, in the long run, decrease rather than increase competition. Consequently, it should come as no surprise that, in the words of the Areeda-Hovenkamp antitrust treatise, American courts "have almost uniformly held that a refusal to license [a patent] cannot be an antitrust violation."[11]

In its 1985 decision in *Aspen Skiing*, the Supreme Court created an exception to the general rule that a firm has no duty to deal with its rivals.[12] The case concerned three independent operators of skiing facilities in Aspen, Colorado that offered an interchangeable admission ticket that enabled skiers to visit any of the three facilities at the Aspen resort.[13] In 1967, Ski Co., one of the operators, acquired one of the competing facilities and opened another facility, such that it operated three of the four skiing facilities in Aspen.[14] Ski Co. continued to offer interchangeable tickets until 1978, when it discontinued the practice and refused to include its remaining competitor, Highlands, in Ski Co.'s advertising campaigns.[15] Highlands successfully sued Ski Co. under Section 2 of the Sherman Act,[16] and, after the Tenth Circuit affirmed, the Supreme Court granted *certiorari* to decide the question of whether "a firm with monopoly power has a duty to cooperate with its smaller rivals in a marketing arrangement in order to avoid violating § 2 of the Sherman Act."[17] The Supreme Court affirmed. It reasoned that, although the decision to end an existing business cooperation is not necessarily anticompetitive, the jury found no business justification for Ski Co.'s decision to discontinue interchangeable tickets. Given that finding of fact, the Court said that "[t]he jury may well have concluded that Ski Co. elected to forgo these short-run benefits [resulting from the cooperation with its smaller rival] because it was more interested in reducing competition in the Aspen market over the long run by harming its smaller competitor."[18]

Thus, in *Aspen Skiing*, the Court carved out an exception to the general rule that a firm does not have an antitrust duty to deal with its rivals. Two necessary (but not sufficient) requirements for conduct to fall under *Aspen Skiing's* exception are (1) evidence that a monopolist ended a presumably profitable existing course of dealing with a competitor; and (2) evidence of a monopolist's "willingness to forsake short-term profits to achieve an anti-competitive end."[19] It bears emphasis, however, that the Court subsequently said in *Trinko* that "*Aspen Skiing* is at or near the

7 *United States v. Colgate & Co.*, 250 U.S. 300, 307 (1919).

8 *Verizon Commc'ns Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398, 408 (2004); see also *Pacific Bell Tel. Co. v. linkLine Commc'ns, Inc.*, 555 U.S. 438, 448 (2009).

9 *linkLine*, 555 U.S. at 448.

10 See 35 U.S.C. § 271(a).

11 3 Phillip E. Areeda & Herbert Hovenkamp, Antitrust Law ¶ 709(b)(1), at 374 (4th ed. 2013).

12 *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 611 (1985).

13 *Id.* at 589.

14 *Id.* at 589–90.

15 *Id.* at 591.

16 *Id.* at 595.

17 *Id.* at 587.

18 *Id.* at 608.

19 *Verizon Commc'ns Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398, 399 (2004).

outer boundary of § 2 liability."[20] Several courts, including the Ninth Circuit, have since found *Aspen Skiing's* exception to apply only if the decision to end an existing cooperative arrangement has *no* reasonable explanation other than to harm competition.[21]

III. THE FINDINGS IN *FTC v. QUALCOMM*

In *FTC v. Qualcomm*, Judge Koh found that Qualcomm had an antitrust duty to offer a license to its SEPs to competing modem manufacturers.[22] She found that Qualcomm had previously licensed its SEPs to competing modem manufacturers[23] and that it subsequently ended that practice because it concluded that it was more lucrative to license its SEPs only to original equipment manufacturers ("OEMs").[24] Judge Koh said that, because (1) Qualcomm terminated what she assumed was a profitable course of dealing; and because (2) such a decision by Qualcomm was in her assessment motivated by "anticompetitive malice," Qualcomm's refusal to offer a license fell within the exception to a monopolist's general right to refuse to deal with competitors that the Supreme Court had recognized in *Aspen Skiing*.[25] However, several commentators have criticized Judge Koh's conclusion that Qualcomm had an antitrust duty to license its SEPs to its rivals.[26]

Most notably, substantial evidence in the record contradicts Judge Koh's finding that Qualcomm's conduct satisfied the two necessary requirements for applying the *Aspen Skiing* exception. The evidence indicates that Qualcomm had always licensed its SEPs to OEMs, and that those license agreements historically generated most of Qualcomm's licensing revenue.[27] At some point in the past, Qualcomm executed *limited* license agreements with some modem manufacturers. Those agreements granted Qualcomm's rivals the freedom to operate — that is, the right to make and sell items practicing Qualcomm's claimed inventions without the risk of facing a suit for patent infringement. However, those limited licenses with rival modem manufacturers explicitly did not grant any rights to OEMs who purchased rivals' modems. After the Supreme Court clarified the doctrine of patent exhaustion, which provides that the authorized sale of a patented item terminates all the patent holder's patent rights to that item,[28] it became clear that even the limited license agreements that Qualcomm executed with modem manufacturers could exhaust Qualcomm's patent rights. Consequently, Qualcomm revised its agreements with modem manufacturers so as to continue to grant them the freedom to operate while preserving Qualcomm's ability to license (and collect royalties) from OEMs.[29]

Qualcomm merely revised the form of the agreements that it had executed with some modem manufacturers. It never licensed its SEPs exhaustively to rival modem manufacturers. Consequently, one could question whether it was correct for Judge Koh to conclude that Qualcomm ended a presumably profitable existing course of dealing, as required by *Aspen Skiing*. That conclusion is even more questionable if one considers that, although in the past Qualcomm executed limited license agreements with some modem manufacturers, most of the modem manufacturers that currently operate in the industry have never had a license to Qualcomm's SEPs.

Furthermore, Judge Koh's conclusion that Qualcomm's supposed change in its licensing practice was motivated by a willingness to forsake short-term profits to achieve an anticompetitive end is contradicted by substantial evidence in the record. As Judge Koh herself observed,

20 *Id.* at 409; see also *In re* Adderall XR Antitrust Litigation, 754 F.3d 128, 134 (2d Cir. 2014).

21 See, e.g. *Aerotec Int'l, Inc. v. Honeywell Int'l, Inc.*, 836 F.3d 1171, 1184 (9th Cir. 2016) (quoting *MetroNet Servs. Corp. v. Qwest Corp.*, 383 F.3d 1124, 1132 (9th Cir. 2004)); *Novell Inc. v. Microsoft Corp.*, 731 F.3d 1065, 1075 (10th Cir. 2013) (Gorsuch, J.).

22 *FTC v. Qualcomm Inc.*, 411 F. Supp. 3d 658, 758 (N.D. Cal. 2019).

23 *Id.* at 760.

24 *Id.* at 751.

25 *Id.* at 758–62 (construing *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 602 (1985)).

26 See, e.g. Christine Wilson, *A Court's Dangerous Antitrust Overreach*, Wall St. J., May 28, 2019, https://www.wsj.com/articles/a-courts-dangerous-antitrust-overreach-11559085055; Richard A. Epstein, *Judge Koh's Monopolization Mania: Her Novel Antitrust Assault Against Qualcomm Is an Abuse of Antitrust Theory*, 98 Neb. L. Rev. 241 (2019); Lindsey M. Edwards, Douglas H. Ginsburg & Joshua D. Wright, *Section 2 Mangled: FTC v. Qualcomm on the Duty to Deal, Price Squeezes, and Exclusive Dealing*, 7 J. Antitrust Enforcement (forthcoming 2020); Erik Hovenkamp, *FTC v. Qualcomm, Antitrust, and Intellectual Property*, Regulatory Rev. (June 11, 2019) (agreeing with Judge Koh on the findings about exclusive dealing, but finding her conclusion about a duty to deal "precarious").

27 Transcript of Meeting Between Qualcomm and the Internal Revenue Service at 71:18–23 (July 27, 2012), exhibit to Joint Notice Regarding CX6786-R, *FTC v. Qualcomm Inc.*, No. 5:17-CV-0220-LHK (N.D. Cal. Jan. 28, 2019), ECF No. 1455 [hereinafter IRS Transcript].

28 *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 621 (2008).

29 See IRS Transcript, *supra* note 27, at 31:3–8; *id.* at 34:5–8, 35:12–36:11.

Qualcomm reformulated its licensing practice because it concluded that licensing SEPs only to OEMs was more lucrative.[30] Of course, the desire to maintain (or increase) licensing revenue is a normal business objective of any patent holder and certainly not evidence of anticompetitive malice.[31] Judge Koh even found that other SEP holders (such as Nokia and Ericsson) that did not compete with manufacturers of baseband processor modems chose, like Qualcomm, to license their SEPs only to OEMs.[32] In light of that evidence, it would be incorrect to conclude that Qualcomm's refusal to license rival modem manufacturers is irrational but for its anticompetitive effect.

One could also question whether it was appropriate for Judge Koh to apply *Aspen Skiing* in the context of patent licensing. *Aspen Skiing* concerned an industry that was not particularly technologically dynamic. It also did not involve a firm's refusal to license a patented technology. It thus seems fair to ask whether *Aspen Skiing* could apply at all in the context of patent rights. In *Trinko*, the Court said that "[c]ompelling such firms to share the source of their advantage is in some tension with the underlying purpose of antitrust law, since it may lessen the incentive for the monopolist, the rival, or both to invest in those economically beneficial facilities."[33] The detrimental effects of forced cooperation are likely to be particularly acute in the context of patent rights, which are an essential tool to stimulate investment in innovation.

In sum, Judge Koh adopted an expansive reading of *Aspen Skiing* that has little support either in the facts of the case or in courts' prior decisions. Even the FTC distanced itself from Judge Koh's conclusion that Qualcomm's licensing practice satisfied the *Aspen Skiing* requirements. In its merits brief to the Ninth Circuit, the FTC said that it "does not argue that Qualcomm has a duty to deal with its rivals under the heightened *Aspen/Trinko* standard."[34]

IV. DOES A RAND COMMITMENT CREATE AN ANTITRUST DUTY TO DEAL?

In its merits brief to the Ninth Circuit, the FTC argued that, although Qualcomm did not have an antitrust duty to license under *Aspen Skiing*, Qualcomm nonetheless harmed competition by violating its voluntary RAND commitment to offer a license to its SEPs to its rivals.[35] The FTC acknowledged that a breach of a RAND commitment does not necessarily violate the Sherman Act, but the agency nonetheless argued that "Section 2 liability is appropriate when, as here, a monopolist SEP holder commits to license its rivals on FRAND terms, and then implements a blanket policy of refusing to license those rivals on any terms, with the effect of substantially contributing to the acquisition or maintenance of monopoly power in the relevant market."[36] (Note that, although the FTC referred to a "FRAND" commitment, the two SSOs involved in the case — TIA and ATIS — have a RAND, rather than a FRAND, commitment.)

Judge Koh never addressed, let alone answered, the FTC's contention. She held, on summary judgment, that Qualcomm's RAND commitments to TIA and ATIS "require Qualcomm to license its SEPs to modem chip suppliers."[37] She also found that Qualcomm's failure to license its SEPs to rivals violated its contractual obligations pursuant to its RAND commitments.[38] But Judge Koh never explained the implication of that ruling for her conclusion of law that Qualcomm had an antitrust duty to offer licenses to its rivals. In other words, she predicated her conclusions about the existence of an antitrust duty to license exclusively on *Aspen Skiing*. Indeed, the FTC argued on appeal that, "although the district court applied a different approach" in concluding that Qualcomm had an antitrust duty to license, the Ninth Circuit "'may affirm on any ground finding support in the record.'"[39] However, at least three reasons weigh against the FTC's contention that Qualcomm's RAND commitment created an antitrust duty to license SEPs to rival modem manufacturers.

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30 *FTC v. Qualcomm*, 411 F. Supp. 3d at 751.

31 *Id.* at 753–54.

32 *Id.* at 754–55.

33 *Verizon Commc'ns Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398, 407–08 (2004).

34 Brief of the Federal Trade Commission at 30, *FTC v. Qualcomm Inc.*, No. 19-16122 (9th Cir. Nov. 22, 2019).

35 *Id.* at 69.

36 *Id.*

37 Partial Summary Judgment, 2018 WL 5848999, *supra* note 2, at *10.

38 *Id.* at *14.

39 Brief of the Federal Trade Commission at 69–70, *FTC v. Qualcomm Inc.*, No. 19-16122 (9th Cir. Nov. 22, 2019) (quoting *Cigna Prop. & Cas. Ins. Co. v. Polaris Pictures Corp.*, 159 F.3d 412, 418–19 (9th Cir. 1998)).

First, one could question whether Qualcomm had a contractual duty to offer a license to its SEPs to rival modem manufacturers. The FTC and Qualcomm disagreed about the correct interpretation of Qualcomm's contractual obligations pursuant to its RAND commitments. The FTC argued that "Qualcomm's contractual commitments to ATIS and TIA to make licenses to relevant SEPs available to 'applicants' on FRAND terms require Qualcomm to make such licenses available to rival modem-chip sellers."[40] Qualcomm countered that the FTC ignored the qualifying language in the two contracts, which limits the SEP holder's duty to offer licenses to applicants that need such a license to implement or to practice the relevant standards.[41] Qualcomm argued that, because baseband processor modems cannot implement or practice a standard, manufacturers of baseband processor modems cannot be considered "applicants" for purposes of the contracts that Qualcomm executed with ATIS and the TIA.[42] As explained earlier, Judge Koh found that the RAND commitments Qualcomm made to the two SSOs created a duty for Qualcomm to offer licenses to rival modem manufacturers.[43] However, the evidence that Judge Koh cited in her summary judgment was too insubstantial to support that conclusion. Neither the language in the contracts, nor the extrinsic evidence that Judge Koh summarized, unambiguously supported that conclusion. At the very least, the language of the contracts was ambiguous, such that it was appropriate to hear additional evidence, rather than decide the issue on summary judgment, as Judge Koh did.

Second, even if one were to assume that Qualcomm had a contractual duty to offer licenses to its SEPs to rival modem manufacturers, that proposition still would not support the finding of an antitrust duty to license. The Supreme Court addressed a similar question in *Trinko*, in which it found that, although regulations promulgated by the Federal Communications Commission ("FCC") to implement Sections 251 and 252 of the Telecommunications Act of 1996 obligated Verizon to provide unbundled access to its network infrastructure to downstream competitors on "'just, reasonable, and non-discriminatory' [JRAND] terms,"[44] Verizon had no *antitrust* duty to deal with such competitors.[45] The Court reasoned that the FCC's regulations did "not create new claims that go beyond existing antitrust standards."[46] "That Congress created these duties [to deal]," the Court emphasized, "does not automatically lead to the conclusion that they can be enforced by means of an antitrust claim."[47] In other words, although the Court acknowledged that Verizon had a duty to grant competitors access to its facilities on JRAND terms, it found that the duty arose from the Telecommunications Act of 1996 and not from antitrust law.[48] The Court's reasoning in *Trinko* indicates that, even if Qualcomm had a contractual duty to offer licenses to its SEPs to competing modem manufacturers, that contractual duty would not create any new *antitrust* duty for Qualcomm beyond what already exists in American antitrust jurisprudence.[49] That duty would arise from a contract, not from antitrust law.

Judge Koh's opinion offers limited evidentiary support for the FTC's contention that Qualcomm's refusal to license rival modem manufacturers permitted Qualcomm to acquire or maintain market power. At the outset, the allegation that an SEP holder could harm competition by licensing its SEPs to OEMs, rather than modem manufacturers, is economically unsound. An SEP holder cannot exclude a rival, much less use its SEPs to monopolize the market in which that rival competes, unless the SEP holder *enforces* its SEPs against that rival. The FTC did not allege that Qualcomm ever did so. Rather, the evidence that Judge Koh cited in her opinion indicates that Qualcomm had an "'unwritten policy of not going after chip manufacturers.'"[50] Furthermore, although Judge Koh found that Qualcomm's refusal to license "promoted" the exit of some

40 Federal Trade Commission's Motion for Partial Summary Judgment on Qualcomm's Standard Essential Patent Licensing Commitments and Memorandum of Points and Authorities in Support at i, *FTC v. Qualcomm Inc.*, No. 5:17-cv-00220-LHK (N.D. Cal. Aug. 30, 2018).

41 Defendant Qualcomm Incorporated's Opposition to Motion for Partial Summary Judgment on Qualcomm's Standard Essential Patent Licensing Commitments at 1–3, *FTC v. Qualcomm Inc.*, No. 5:17-cv-00220-LHK (N.D. Cal. Sept. 24, 2018); see also *id.* at 19–20.

42 *Id.* at 20.

43 Partial Summary Judgment, 2018 WL 5848999, *supra* note 2, at *12.

44 *Verizon Commc'ns Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398, 405–06 (2004).

45 *Id.* at 410.

46 *Id.* at 407.

47 *Id.* at 406.

48 *Id.* at 410.

49 See, e.g. *In re* Adderall XR Antitrust Litig., 754 F.3d 128, 135 (2d Cir. 2014) ("The mere existence of a contractual duty to supply goods does not by itself give rise to an antitrust 'duty to deal.'") (quoting *Pacific Bell Tel. Co. v. linkLine Commc'ns, Inc.*, 555 U.S. 438, 450 (2009)).

50 *FTC v. Qualcomm Inc.*, 411 F. Supp. 3d 658, 750 (N.D. Cal. 2019) (quoting Deposition of Andrew Hong (Legal Counsel, Samsung Intellectual Property Center) at 161:16–19, *FTC v. Qualcomm Inc.*, No. 5:17-cv-00220-LHK (N.D. Cal. Jan. 7, 2019), *exhibit to* Federal Trade Commission's Submission of Trial Testimony That Occurred on January 8[, 2019], *FTC v. Qualcomm Inc.*, No. 5:17-cv-00220-LHK (N.D. Cal. Jan. 11, 2019), ECF No. 1253).

modem manufacturers,[51] she performed no rigorous analysis of exit from and entry into what she defined as the relevant markets. She also did not examine evidence about competition in her relevant product markets, such as evidence of prices or output level. One could thus question whether the Ninth Circuit would have a sufficient evidentiary basis to accept the FTC's contention that Qualcomm's refusal to offer a license to rival modem manufacturers had harmed competition.

V. CONCLUSION

In *FTC v. Qualcomm*, Judge Koh relied on *Aspen Skiing* to support her conclusion that Qualcomm had an antitrust duty to offer licenses to its SEPs to rival modem manufacturers. However, substantial evidence contradicted her finding that Qualcomm's conduct satisfied the two necessary requirements for *Aspen Skiing* to apply. Even the FTC distanced itself from Judge Koh's reliance on *Aspen Skiing* in its appeal to the Ninth Circuit and instead argued that Qualcomm's refusal to license should be considered anticompetitive because it satisfied the traditional elements of a Section 2 violation. Judge Koh never addressed the FTC's contention. Even brief consideration of the FTC's argument, however, reveals that it is both contrary to controlling Supreme Court precedent and unsupported by the facts in evidence.

51 *Id.* at 749.

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