

## Standard Essential Patent Licensing Antitrust And Patent Law: Crossroad Or Intersection?

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**S**tandard development organizations that develop technical standards like Wi-Fi, Bluetooth, and MP3 often require patent owners to indicate whether they will grant licenses to implementers on fair, reasonable, and non-discriminatory terms. In recent years, courts have issued conflicting decisions on the rights and responsibilities of patent owners and technology implementers in negotiating licenses under standard essential patents (SEPs) and what it means to grant a license that is fair, reasonable, and non-discriminatory (*i.e.*, a “FRAND” license). One underlying aspect of these conflicting court decisions is whether patent law and antitrust/competition law conflict with each other, or whether these laws are aligned and complement each other.

This article illustrates how patent and antitrust law should be a useful intersection where innovation, industry growth, and fair competition come together and flourish, rather than a dangerous crossroad where competing interests collide and cause damage.

To have a balanced view of how these two sets of laws impact licensing, it is necessary to take a step back and review what the patent and antitrust laws were designed to achieve. The patent system governs the types of inventions that may be protected while the antitrust system governs competition between companies and the effect competition has on consumers and the marketplace.

### Overview Of Patent Law

#### 1. A Property Right

Patents provide a property right. Owners may sell or license that right. And they may prevent others from using that right by asking a court to enjoin infringement and award damages.

#### 2. Contractual Conditions Imposed by the Standards Process

However, patents that cover standardized technology may impose additional responsibilities for patent owners and implementers. When a Standard Development Organization (SDO) designates a technology to be used in a standard (*e.g.*, Wi-Fi, Bluetooth, etc.) to promote performance and interoperability of products, it often requires owners of patents that cover that standard to license those patents on Fair, Reasonable and Non-Discriminatory (FRAND) terms to those who want to make, use, and sell products containing that technology. This

FRAND obligation is a contractual obligation between the SDO and the patent owners. Implementers of the standard have the right to receive a FRAND license as “third party beneficiaries” of this contractual relationship between the patent owners and the SDO in return for assuming certain obligations related to licensing negotiations.

Each SDO has its own requirements, so to determine the rights and obligations of the patent owners and implementers under each standard, it is necessary to consider the intellectual property provisions in the SDO agreement.

Generally, and putting aside the question of whether a patentee must license at the component level, during the licensing negotiation process an implementer has the right to have access to license the patents on FRAND terms and the patent owner is obligated to offer or agree on a FRAND license.

#### 3. Duty of Good Faith and Fair Dealing

But what happens if the negotiation no longer complies with the aims of the SDO policy? What are the effects of breaching such duties and obligations on the patent owner and the implementer, respectively?

If the implementer does not comply with the duty of good faith and fair dealing during license negotiations, courts can relieve the patent owner of its contractual FRAND commitment and allow the patent owner to file a lawsuit asking the court to enjoin the implementer to stop the infringement, and request damages, which may be calculated without reference to any FRAND measurement. On the other hand, if the patent owner breaches the contract, the implementer can ask the court to require the patent owner to provide it with a license at a FRAND rate.

#### 4. Willingness to Take License

One of the common disputes about the breach of FRAND obligations is whether the implementer is willing to take a FRAND license. The German Federal Supreme Court in the *Sisvel vs. Haier* case has recently provided guidance in this matter, finding that implementers are acting in good faith and willing to take a license if they agree in advance to do so under FRAND terms. This means that they must agree to take a license in an unconditioned manner and without delaying the licensing negotiation process, and without necessarily knowing what the terms ultimately will be. On the other side,

the patent owners simply need to let the implementer know what patents are in play and what products infringe those patents, without further explanations.

## 5. Defining “Fair, Reasonable, and Non-Discriminatory”

Other common disputes center around the various prongs of the FRAND requirement. For example, should the prongs be looked at together as a whole or assessed independently? And what in particular does “Non-Discriminatory” mean: can the licenses among different licensees be different? The UK Supreme Court in the case *Unwired Planet vs. Huawei* has addressed these questions.

## 6. License to all in Supply Chain? Global Licenses?

Other matters can be the subject of a potential breach: can the patent owner decide who to license in the supply chain (e.g., the chipset maker or the final product producer) or must they offer a license to all organizations in the supply chain. Can non-essential patents become part of the portfolio that is being licensed? Can a patent owner require patents to be licensed internationally? What types of grant back requirements may be imposed? The U.S. court decision in *FTC vs. Qualcomm* and the German court decision in *Nokia vs. Daimler* are useful in addressing these questions related to a patent owner licensing its SEP.

## Overview Of Competition Law

In the United States, the primary sources of competition law are sections 1 and 2 of the Sherman Act, which addresses monopolization and prohibits collusion in restraint of trade. In addition, Section 5 of the Federal Trade Commission Act prescribes unfair methods of competition, but in several respects is interpreted to have a scope similar to the Sherman act.

In Europe, Articles 101 and 102 of the Treaty on the Functioning of the EU prohibit collusion in restraint of trade and abuse of a dominant market position. These are integrated into national laws of member states through domestic legislation, for example in the UK through the Competition Act 1998.

In China, there is legislation similar, but not identical to Europe. Article 13 *et seq.* of China’s Anti-Monopoly Law of 2007 broadly reflects the European Union’s Article 101, restricting monopolistic agreements between competitors. China’s Article 17, like Europe’s Article 102, prohibits certain conduct by companies with a dominant market position.

## 1. Conflicts or Alignment Between Patent and Antitrust Law?

For decades, we have asked the question: is there a conflict between the governmental granted patent and competition law, which is actually an “anti-monopoly” law?

U.S. Competition authorities stated that there is no

conflict and that both sets of laws are aligned, as both attempt to spur innovation and competition. And the current administration of the Antitrust Division in the U.S. Department of Justice (DoJ), led by Makan Delrahim, has supported the idea that the two legal schemes operate together to achieve the same objectives.

Case law of the CJEU has followed a similar path. The CJEU’s decisions in *IMS Health*<sup>1</sup> and *Magill*<sup>2</sup> stressed that intellectual property rights are not inconsistent with competition law, and that only in rare cases might competition law intervene on the exercise of intellectual property rights.

## 2. Does Size Matter?

According to competition law, “bigness” is not the same as “badness.” For example, if a company has obtained a monopoly position in a market through business acumen or skill, “bigness” is not of itself unlawful; there must be some additional factors that cause that monopoly power to violate the antitrust laws.

## 3. Establishing Market Power

In addition to that, case law in both the United States and Europe affirms that market power is not merely presumed by the ownership of a patent. It may become more difficult to argue against the idea of market power when a patent essential to practice a given technology standard is involved, but the CJEU in *Huawei vs. ZTE*<sup>3</sup> reminds us that market power is not to be presumed even in this case.

## 4. FRAND Violations—Contract or Antitrust?

The most recent developments on how competition law comports with patent law have dealt with whether a FRAND violation can also be considered an antitrust violation.

While the position in Europe varies from country to

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1. 2004 ECR I-5039.

2. Joined Cases C-241 & C-242/91 1995 E.C.R. I-743.

3. C-170/13.

country, U.S. case law now has clarified that a FRAND violation is rarely an antitrust matter; it is a contractual matter that should be addressed under contract law and, absent extraordinary circumstances, it should not be considered an antitrust violation. This is supported by speeches regularly given by executives within the DoJ Antitrust Division, written guidance issued by the Antitrust Division and the United States Patent Office, and by business review letters.<sup>4</sup>

## 5. Availability of Injunctions

U.S. agencies have also now rejected the notion that patents subject to FRAND commitments are different from non-essential patents and, for instance, may not be used to obtain an injunction when circumstances justify. The courts and the Antitrust Division have started to recognize and emphasize again that the real value of patent ownership is the right to exclude others from practicing a patented technology without authorization.

The United States has a developing body of case law that supports the idea that if implementers hold out and refuse a license under FRAND terms as offered by the patent owner or negotiate in bad faith, they may lose the right to a FRAND license and completely lose the FRAND defense that may otherwise prevent an injunction and damages calculated without reference to the FRAND commitment.

The case law and the Antitrust Division now regularly confirm that the courts must be very careful in applying competition law to technology markets because the impact of claiming an antitrust violation may actually harm innovations.

## 6. Possible Violations of Antitrust Law

So, what remains in terms of antitrust law in the United States as applied to the use of Intellectual Property Rights?

Certainly, if patent owners commit a fraud on the SDO by refusing to declare patents during the development process that they know to be essential to practice a given standardized technology or by taking the FRAND commitment with the intention of never complying with it, these behaviors may constitute an antitrust violation (assuming other elements of a violation are shown). And finally, antitrust violations may result (again, depending on proof of required elements) from using fraudulently obtained patents to restrain competition or filing objectively baseless claims against an implementer with the intent to hinder competition rather than defend one's patent rights.

### Some Practical Cases

But what happens in the real world when a patent owner seeks to negotiate a license with an implementer?

After analyzing the differences between patent law

4. A Business Review Letter is a request that the DOJ Antitrust Division give its current enforcement intentions with respect to a specific conduct described in the letter.

and antitrust law from a theoretical point of view, we will now review how some courts have recently addressed these issues.

## 1. The United States

In the U.S., the recent decision of the 9th Circuit in *Federal Trade Commission (FTC) v. Qualcomm* found that (1) violating FRAND commitments did not in that case result in a violation of antitrust laws (2) royalties need not be based on the value of the smallest saleable patent practicing unit (SSPPU), and (3) only under the most stringent and narrow of circumstances will a patentee have the obligation to license rivals.

A number of other court cases support the 9th Circuit rulings, and an important takeaway from all this is that SEP royalties need not be based on the value of the SSPPU, as suggested by the IEEE some years ago. Reasonable royalties need to be based on the value of the technology to the infringing product, but not necessarily on the smallest salable patent practicing unit.

## 2. Europe

In Europe, two important milestones have been set: the German Federal Supreme Court's decision in *Sisvel vs. Haier* and the UK Supreme Court's decision in *Huawei vs. Unwired Planet*. These are among the most significant decisions since *Huawei vs. ZTE* and provide important guidelines on SEP licensing.

### A. Information Exchange and Delay

In *Sisvel vs. Haier*, the German Federal Supreme Court (Bundesgerichtshof—BGH) recognized the existence of hold-out tactics widely adopted by implementers to delay the negotiation process. The court emphasized that an implementer must be actively engaged in the licensing negotiation process with the clear and unconditional intention of concluding a license.

Following the ECJ decision, the BGH confirmed that the SEP owner must notify the implementer of the alleged infringement and the necessity to take a license. However, it criticized the common practice by implementers of asking for additional technical information as a delay tactic, in particular in the context of SEPs where both patents and standards are public documents. The patent owner must only inform the implementer about the patent(s), the standard(s), and the infringing product.

### B. Non-Discriminatory Offers

Another important decision set by the BGH is that the FRAND commitment does not mean that everyone receives the same offer. The court recognized that patent licensing sits firmly in market and business realities, and non-discrimination should not be considered hard-edged. Patent owners are not obliged to offer the same rate to all implementers. A license, which a patent owner has concluded in certain circumstances, does not necessarily become a reference for future cases. In fact,

a patent owner may accept conditions which may be less favorable than normal, but which are still the best that can be obtained in those specific conditions, for instance when the licensor is under political pressures.

### C. Global Licenses

The BGH recognized that portfolio licensing offers have positive effects and should not raise any antitrust concerns. It also highlighted that it is common industry practice and more efficient to have a global portfolio license.

A similar decision has been ruled also by the UK Supreme Court on the case between *Huawei vs. Unwired Planet*.

### D. Injunctions and Damages

In *Huawei vs. Unwired Planet*, Huawei argued that Unwired Planet abused its dominant position under Article 102 of European competition laws (TFEU) by seeking an injunction while failing to comply with the *ECJ Huawei v. ZTE* decision, which laid down a set of principles that should guide patent owners and licensees in the negotiation process.

In particular, Huawei, who was the implementer, argued that the ECJ rules are mandatory and should always be strictly followed, otherwise the right for injunction is lost. According to Huawei, the alleged deviation of Unwired Planet from the road map results in a failure to offer a FRAND license before proceeding to seek an injunction, and the result sought was that Unwired Planet's remedy should have been limited to damages.

In the first instance, Justice Birss already explained that ECJ decision does not impose any mandatory requirements to patent owners. What it does instead is set out a “*standard of behaviour against which both parties’ behaviour can be measured to decide...if an abuse has taken place.*”

### E. Notices of Infringement, Offers, and Willingness to License

Afterwards, the UK Supreme Court said that bringing an action for an injunction without any notice/consultation may infringe Article 102. However, the nature of this required notice/consultation depends on the circumstances. There is no mandatory requirement to follow the exact ECJ protocol because every case has its own set of circumstances. The key point is that the ECJ decision created a “safe harbor” for SEP owners and, like any safe harbor, it just means that if you do not follow the steps, you’re not in a safe harbor. But it does not mean you are violating competition law.

The UK Supreme Court also explained there is no mandatory requirement for the offer in the negotiation process to be exactly what is later found to be a FRAND license, as was also stated in the *Motorola vs. Microsoft* case in the U.S.

In this case, Unwired Planet showed a willingness to grant a license on whatever terms the court finally de-

ecided to be FRAND, and therefore the finding was that it did not behave abusively or contrary to its FRAND obligations. In contrast, Huawei never made an unconditioned commitment to enter into a FRAND license; the company only indicated that it was willing to enter into what it thought was a FRAND license.

### 3. Global Anti-Injunction Orders

After the *Huawei vs. Unwired Planet* decision, we have a new issue confronting us: if the UK courts can establish worldwide FRAND license terms, what could stop every other court in the globe from doing the same?

The court of Wuhan just recently ordered Interdigital not to proceed with seeking an injunction against Xiaomi in its case on 3G and 4G patents in India, and if Interdigital violates that order, it is subject to a million yen fine per day. Interdigital had no notice of the application for the order nor an opportunity to respond. Interdigital indeed went back to Indian court asking for an anti-anti-suit injunction.

The proliferation of these types of injunctions could create a serious problem of jurisdiction: what should be the scope of a decision from a national court?

However, there is a big difference between the decisions in the UK and China. The UK courts said that if Huawei was not willing to take a global license, it will issue an injunction for the UK territory. Alternatively, at least one court in China is taking decisions that influence different countries, interfering with the decisions of courts, *e.g.*, in India.

What seemed initially to be a sensible resolution of the FRAND worldwide license problem—going to a single court and setting a worldwide license—is now getting into a more difficult situation where companies are racing to jurisdictions around the globe that are believed to attribute far less value to intellectual property and engaging in seemingly endless applications for anti-suit injunctions.

### Conclusion

In general, patent law regulates obtaining and enforcing patents, while antitrust law ensures that patents are not misused in the marketplace. So, patent law should not be a crossroad in conflict with antitrust law. Instead, the two sets of laws should form an intersection through which patent and antitrust laws align to develop new technologies that improve our lives while preventing abuses in the competitive marketplace. ■

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