

Antitrust Alert

DOJ Releases Electrifying New Guidance on Standard-Essential Patent Policy

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The Department of Justice continued its multi-pronged defense of standards-setting organizations (SSOs) who adopt patent policies to prevent hold-up during licensing negotiations. Last week's business review letter is just the latest of DOJ's myriad efforts aimed at encouraging efficient license negotiations over standard-essential patents. In the not-so-distant past, DOJ issued joint guidance with the Federal Trade Commission and the US Patent and Trademark Office, the three agencies hosted joint workshops for industry, and DOJ reviewed several patent portfolio acquisitions. All of these efforts signal intense Department scrutiny.

On February 2, 2015, the Department of Justice told the Institute of Electrical and Electronics Engineers (IEEE) in a business review letter that it did not intend to challenge proposed changes to IEEE Standards Association's (IEEE-SA) patent policy aimed at encouraging licensing of standard-essential patents on reasonable and non-discriminatory (RAND) terms. In the days since DOJ's letter, the IEEE has already implemented the approved policy changes. Long a focus of the antitrust agencies' policy advocacy before Congress and at the ITC, DOJ's analysis centers on fostering license agreements on reasonable terms by removing significant hurdles that would otherwise allow a standard-essential patent holder to hold up negotiations.

IEEE's proposed updated patent licensing policy included four provision changes: (1) companies agreeing to the IEEE RAND commitment cannot seek or enforce a Prohibitive Order to exclude a potential competitor from the market, (2) "reasonable rate" must not include the value accorded to the fact that the patent is included in the IEEE standard, (3) patent holders who have agreed to the IEEE RAND commitment cannot refuse to license its patents for use in IEEE standard products at all levels of the supply chain, and (4) a licensor may require a grant back.

First, DOJ applauded IEEE's efforts to erase the threat of a prohibitive order preventing the proposed licensee from coming to market because a threat of exclusion is a "powerful weapon" to "hold up implementers" from competing. DOJ believed this updated provision would further procompetitive aims by increasing clarity, facilitating negotiations to more quickly flood the market with standard-abiding competitors, and limiting the potential for expensive and time-consuming patent litigation. Plus, this is in line with recent Federal Circuit and district court opinions refusing to grant injunctions for patent holders bound by RAND commitments such as those requested by IEEE.

Second, the Department endorsed IEEE's proposal that a reasonable royalty rate must only consider the intrinsic value of the technology and not the value added due to its inclusion in the standard. The intrinsic valuation provides appropriate compensation, said DOJ, and assures implementers that the patent holder does not push for high economic rents due to the standardization of its technology. Critical to DOJ's analysis was the likelihood that this provision would reduce hold-up, thus speeding the process for competing products to reach the market and, by virtue of that competition and lower royalty rates, reducing prices to consumers. But, equally important, the update does not proscribe a royalty rate and, instead, allows the parties to work within certain parameters to reach an efficient license agreement.

Third, enlarging the list of those entitled to a license under the IEEE RAND commitment provides clarity to manufacturers for inputs to the end product and allows faster implementation of the standards without any foreseeable negative effect on competition. This encourages manufacturers facing complex processes to develop earlier, without fear of potential patent litigation or exorbitant license hold-ups as the product nears



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launch. Such hold-ups are inevitably anticompetitive, says the Department, because they chill product development and standard implementation.

Fourth, the provision permitting grantbacks aims to avoid two significant potential side effects of RAND license negotiations – mandatory cross-license agreements and tying the standard-essential patent to irrelevant patents. DOJ stated that a “compulsory cross-license can, in some cases, decrease incentives to innovate.” Similarly, DOJ’s prior enforcement actions and Supreme Court precedent are littered with cases of anticompetitive effects due to tying. Here, DOJ endorsed IEEE’s update because it would take steps to encourage both dynamic and static efficiencies.

The Department is also focused not only on the potential for anticompetitive effects, but also on the process leading to the transaction or a policy change. DOJ did note that there were potential process concerns that the ad hoc committee created to develop the policy update was stacked with allies seeking to upend the former policy in favor of their own interests. To the Department, this can be a significant source of anticompetitive effects and possibly result in antitrust liability because it may unfairly advantage (or disadvantage) certain members. Here, though, DOJ noted that there was ample opportunity to comment – indeed, the committee received 680 comments on various drafts – and those opportunities quelled any potential process concern.

Across the Department’s analysis there were several common threads: (1) standard-setting organization patent policy should work to facilitate license agreements on faster timelines by increasing certainty and removing hold-up threats, (2) the value proposition should be focused on the intrinsic value of the technology and not the added value due to its standard-essential status, and (3) policies aimed at discouraging forced cross-licenses or tying will be looked upon favorably. Each of these paints a bigger picture that DOJ is willing to tenuously recognize the procompetitive benefits of RAND licenses while still closely watching the progress of standard-setting organizations in high-tech sectors as more standard-essential patents are baked into new industry standards.

This area has been a constant focus of both the Department and the Federal Trade Commission. In a speech detailing the first-year experience with the new joint DOJ/PTO FRAND policy statement, Deputy Assistant Attorney General Renata Hesse stated, “We have been working for a long time in both our competition advocacy and civil enforcement roles to promote competition and sound antitrust policy regarding licensing disputes involving patents that are essential to a standard.”¹ Over the past several years, the antitrust agencies have pursued merger investigations tinted by SEP concerns, worked with the PTO to develop joint industry guidance, and worked to discourage the ITC from granting harsh exclusion orders for SEPs. This recent business letter to the IEEE demonstrates not only the continued agency commitment to the procompetitive benefits of the standards-setting process, but that the Department is using another option at its disposal to further its policies.

If you have any questions about this topic, please contact the author(s) or your principal Mintz Levin attorney.

Endnotes

¹ Renata B. Hesse, Deputy Assistant Attorney General for Criminal and Civil Operations, Antitrust Division, Department of Justice, Remarks at the Global Competition Review Live IP & Antitrust USA Conference, Washington, DC (March 25, 2014).