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Antitrust Intellectual Property Alert

DOJ's Endorsement of IEEE Patent Policy Takes Center Stage at IP Antitrust Conference

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On April 14 in Washington, DC, Global Competition Review hosted its Second Annual IP & Antitrust USA conference. The conference covered various hot topics being closely followed by IP antitrust practitioners, including (1) the evolution of the US antitrust agencies' approach to standards and standard essential patent ("SEP") issues; (2) current challenges facing SEP holders who commit to license SEPs on fair, reasonable, and nondiscriminatory terms ("FRAND"); (3) the impact of US patent policy on innovation and global competitiveness; and (4) the proper legal and economic analysis to apply in IP antitrust cases. However, the most hotly debated issue at the conference concerned the recent guidance issued by the Department of Justice (the "DOJ") to the Institute of Electrical and Electronics Engineers ("IEEE") in a February 2, 2015, business review letter stating the DOJ did not intend to challenge proposed changes to IEEE Standards Association's patent policy aimed at encouraging licensing of SEPs on reasonable and nondiscriminatory terms ("RAND").

IEEE's revised patent policy (more fully discussed here) included four provisions: (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 (i.e., basing the royalty rate on the smallest saleable unit by focusing on the intrinsic value of the technology); (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.

DOJ Defends IEEE Business Review Letter

There was considerable disagreement between DOJ officials and other panelists (including a Commissioner from the International Trade Commission) regarding the purpose of the business review letter, its impact on royalty rates and innovation, and whether the use of antitrust enforcement is an appropriate mechanism to resolve FRAND disputes (which some view as merely a contract concern). One speaker stated that the IEEE policy endorsed by the DOJ threatens to drive down royalty rates below market value. Another panelist suggested that the antitrust agency was seeking to set lower royalty rates for SEPs, while yet another panelist raised questions about its potential to negatively impact innovation, noting that the letter appears to favor "implementers" over "innovators." One panelist supported the IEEE letter, noting that the DOJ does not require other standard setting organizations (SSOs) to "cut and paste" the IEEE policy, asserting that the policy is not mandatory, and explaining that a broad coalition of device companies came together to support the IEEE updates.

Representatives from the DOJ vigorously defended the business review letter and the DOJ's enforcement role regarding FRAND disputes. Deputy Assistant Attorney General Renata Hesse insisted that the DOJ is not trying to set lower prices for patents, but instead is attempting to help establish a framework to help parties who cannot reach agreement on royalty rates. According to Hesse, "there is a real disconnect between patentors and licensees regarding the value of the patents that are issued." In her view, there is a substantial need for clarity and certainty regarding the FRAND rules for licensing SEPs. Hesse also joined the issue on the agency's role in FRAND disputes, noting that those who oppose the role of antitrust forget that FRAND and RAND commitments

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are used by SSOs, which comprise groups of competitors who have the ability to confer market power on patent owners. Hesse agrees that bilateral negotiations to resolve patent disputes are preferred, but notes that if an SEP owner abuses its market power based on its participation in an SSO, antitrust is clearly an appropriate tool to resolve concerns.

Hesse's views were echoed by Frances Marshall (Special Counsel for Intellectual Property, Antitrust Division), who provided additional justifications for the DOJ's IEEE letter, including that the letter reflects current law on patent damages, stating, "there is nothing in the policy that is dramatically different from where damages law is right now." One panelist disagreed, noting the letter mischaracterizes the current state of the law on patent damages and fails to address the complicated issue of patent holdup.

FRAND-Encumbered SEP Holders and Injunctive Relief

There was also a brief discussion regarding the antitrust agencies' use of antitrust enforcement to challenge SEP owners that seek to obtain injunctions against alleged infringers. One speaker highlighted that the DOJ has not used Section 2 of the Sherman Act to challenge such conduct, but may be analyzing the issue. However, Federal Trade Commissioner Joshua Wright reiterated his view that antitrust enforcement is not the proper venue to resolve contract disputes over FRAND commitments between SEP holders and licensees. Commissioner Wright, and other panelists, asserted that there is a lack of empirical evidence supporting when holdup occurs, stating we have "fallen prey" to the presumption idea that holdup is proven harmful. He also reiterated his disagreement with the FTC's use of Section 5 of the FTC Act to challenge FRAND-encumbered SEP holders who sought injunctive relief. Moreover, according to Commissioner Wright, courts have determined that the breach of a FRAND commitment in the absence of deception does not constitute an antitrust violation.

Mechanisms for the Economic Analysis of IP Rights

During his keynote address, Commissioner Wright questioned whether cases involving intellectual property rights are an appropriate forum for a truncated or "quick look" rule of reason analysis and went so far as to state that he believes the use of truncated analysis by the FTC in IP cases is one of the things the agency is getting wrong. A full-blown rule of reason analysis tests whether the anticompetitive effects of a challenged restraint outweighs the procompetitive benefits, where proof of anticompetitive effects is required, usually through detailed proof of market power, market shares, and other empirical evidence. Commissioner Wright believes that adopting shortcuts to test the consumer welfare effect of certain conduct in the IP context may not yield the correct result. He noted that truncated analysis is producing results that are different from a standard effects based analysis and believes the full-blown rule of reason analysis is most appropriate, unless and until judicial and economic analysis suggest that errors using a truncated method will not widely occur.

Other panelists addressed whether and the extent to which economists can aid the analysis regarding the calculation of FRAND royalty rates. One panelist suggested that the proper question is not necessarily asking "what is the reasonable royalty rate" but "what is the rate necessary to encourage innovation?" Focusing on what is needed to encourage innovation may, in fact, be the more appropriate framing question for economic analysis.

US Patent Reform and Its Implications

The final panel of the day provided insight into several large corporations and their "battle of business models" over intellectual property rights. Certain company representatives maintained that more time is needed to determine whether additional tweaks are needed to the patent system in the post-America Invest Act world before adopting wide sweeping patent reform. Meanwhile, others proclaimed that rampant abuses have continued to persist in patent litigation and further legislation is required to implement fee shifting, limit damages to the smallest saleable unit, and to have the USPTO grant fewer patents.

Conclusion

Given the tone and tenor of the discussions surrounding the DOJ's IEEE letter, the DOJ and FTC's scrutiny of the conduct of FRAND-encumbered SEP holders, and the agencies' continued interest in the structure and

operation of standard setting organizations, it is clear that the agencies believe that competition law is well placed to help resolve FRAND disputes and other issues that arise in the IP context that threaten to harm competition to the detriment of consumers. Thus, the high-tech industry and its participants should expect continued scrutiny by the antitrust enforcement agencies for the foreseeable future.

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

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