



U.S. DEPARTMENT OF JUSTICE
Antitrust Division

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Sophia A. Muirhead,
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3 Park Avenue, 17th Floor
New York, NY 10016-5997

Dear Ms. Muirhead:

This letter is intended to supplement, update, and append the February 2, 2015 Business Review Letter from the Antitrust Division of the U.S. Department of Justice (the “Department”) to the Institute of Electrical and Electronics Engineers, Incorporated (“IEEE”) (“the 2015 Letter”).¹ The 2015 Letter analyzed proposed revisions to the IEEE Patent Policy of that same year (the “IEEE Policy” or “Policy”) pursuant to the Department’s Business Review Procedure, 28 C.F.R. § 50.6.

We take the extraordinary step to supplement the 2015 Letter primarily because we have learned that our 2015 Letter has been cited, frequently and incorrectly, as an endorsement of the IEEE Policy, which was not our purpose or intent. Additionally, we write to align the now outdated analysis in the 2015 Letter with current U.S. law and policy,² which have evolved in important ways over the last five years in relation to the licensing of standard essential patents (“SEPs” or “essential patents”) and the governance of standards development organizations (“SDOs”). Finally, we understand the Policy may be discouraging participation in standards

¹ Letter from Renata B. Hesse, Acting Assistant Att’y Gen. U.S. Dep’t of Justice, to Michael A. Lindsay, Esq., Dorsey & Whitney LLP (Feb. 2, 2015) [hereinafter 2015 Letter], <https://www.justice.gov/atr/response-institute-electrical-and-electronics-engineers-incorporated>.

² As reflected in positions and statements from the Department, the U.S. Patent and Trademark Office (“USPTO”), and the National Institute of Standards and Technology (“NIST”).

development at IEEE and possibly chilling innovation. We would encourage IEEE to consider this Letter and all applicable facts when assessing whether an update to the Policy is warranted.³

In the event that stakeholders, government enforcers, and commentators cite to the 2015 Letter or this supplemental letter, the analysis of this letter shall govern to the extent there are any disparities in the two letters' legal analyses.

I. Misapplication of the 2015 Letter

The Department is concerned by reports that the 2015 Letter has been repeatedly and widely misconstrued and misapplied, which could undermine the value of the Business Review process to the business and legal communities. Of greatest concern, IEEE and others have represented that the 2015 Letter is an endorsement of the Policy by the Department, which is incorrect.⁴ When asked, Department leadership stated in 2015, “We went to great pains to have the letter reflect that it was not an endorsement of the policy.”⁵ The business review process allowed IEEE to obtain guidance from the Department about the application of the antitrust laws to its proposed policy changes based on the facts and law known at the time of the business review request.⁶ Based on our analysis in 2015, we indicated there was no intention at that time to challenge the proposed policy—nothing more.⁷ Any representation by IEEE—or other

³ For example, IEEE updated its policy in 2007 and 2014-15. The Department also issued a business review letter concerning the 2007 update. Letter from Thomas O. Barnett, Assistant Att’y Gen., U.S. Dep’t of Justice, to Michael A. Lindsay, Esq., Dorsey & Whitney LLP (Apr. 30, 2007), <https://www.justice.gov/atr/response-institute-electrical-and-electronics-engineers-incs-request-business-review-letter>.

⁴ See, e.g., Brief of Amicus Curiae ACT | The App Association Brief in Support of Appellee at 16-18, *FTC v. Qualcomm, Inc.*, No. 19-16122, 2019 WL 6715328 (9th Cir. Nov. 27, 2019), <http://cdn.ca9.uscourts.gov/datastore/general/2020/02/27/19-16122-ACT%20The%20App%20Association%20amicus%20brief.pdf>; Jay Jurata & Emily Luken, *Standard-Essential Patents and Competition Law: An Overview of EU and National Case Law*, Concurrences, at 5 (Nov. 22, 2018) (stating that in the 2015 IEEE Letter, DOJ “endorsed [the] principle” that injunctions should be rare in SEP cases), <https://s3.amazonaws.com/cdn.orrick.com/files/STANDARD-ESSENTIAL-PATENTS-AND-COMPETITION-LAW-AN-OVERVIEW-OF-EU-AND-NATIONAL-CASE-LAW.pdf>; Mintz Levin Intell. Prop. Prac. Grp., *DOJ’s Endorsement of IEEE Patent Policy Takes Center Stage at IP Antitrust Conference*, National Review (Apr. 16, 2015), <https://www.natlawreview.com/article/doj-s-endorsement-ieee-patent-policy-takes-center-stage-ip-antitrust-conference>; *Making ‘Make in India’ Meaningful*, Fin. Express (Jan. 28, 2016), <https://www.financialexpress.com/industry/making-make-in-india-meaningful/203151/> (characterizing IEEE’s 2015 amendments as being “endorsed worldwide including by US Department of Justice”); Koren W. Wong-Ervin, *Righting the Course: What the DOJ Should Do About the IEEE Business Review Letter*, CPI North Am. (Aug. 13, 2017), <https://www.competitionpolicyinternational.com/wp-content/uploads/2017/08/North-America-Column-August-Full-2.pdf> (“The DOJ should also renounce the sections of the prior administration’s IEEE BRL that endorse certain policies[.]”).

⁵ Leah Nylen, *‘Don’t Overread’ DOJ Letter to IEEE, Top Official Says*, MLex (Apr. 15, 2015), <https://www.mlex.com/GlobalAntitrust/DetailView.html?cid=666791> (“We were asked a question, and we answered that question . . . We went to great pains to have the letter reflect that it was not an endorsement of the policy.”).

⁶ Antitrust Division Business Review Procedure, 28 C.F.R. § 50.6; U.S. Dep’t of Justice, *Introduction to Antitrust Division Business Reviews* (2011), <https://www.justice.gov/sites/default/files/atr/legacy/2011/11/03/276833.pdf>.

⁷ 28 C.F.R. § 50.6(9). The Division has never subsequently brought a criminal action if there was full disclosure by the requesting party at the time of the business review request.

stakeholders, government enforcers, or commentators—that the Department has endorsed the Policy is wrong, causes confusion, and must stop.

Indeed, the misinterpretation of the 2015 Letter appears to extend around the world and may have influenced foreign enforcement activity. Over the last several years, some foreign competition authorities have misapplied the 2015 Letter in support of enforcement actions against essential patent holders that have no basis under U.S law, raising the prospect that the business review process could be subject to intentional manipulation abroad.⁸ For instance, in 2017 a major economy’s competition agency claimed the Department expressed support for IEEE’s injunctive relief provisions in connection with a liability decision penalizing an essential patent owner.⁹ And, more recently, a policy report authored for another jurisdiction incorrectly characterized the 2015 Letter and other Department letters as “soft precedent” to guide SDOs in designing IPR policies.¹⁰

IEEE’s advocacy may have informed the broad misinterpretation of the 2015 Letter and led to mistaken reliance on it as guidance for foreign enforcement activity.¹¹ The potential negative impact to global enforcement policy from such a misunderstanding is extensive, commensurate with the wide proliferation of antitrust agencies around the world and the scope of remedies sometimes sought by jurisdictions. The Department urges IEEE to ensure that neither it nor its members characterize the 2015 Letter as an endorsement of IEEE’s Policy. As discussed below, the Department’s concern about mischaracterization of the Letter is also animated in large part by recent changes to US law and policy that render aspects of the 2015 Letter inaccurate.

II. Legal and Policy Developments

A. Acknowledging Essential Patent Holders’ General Right to Seek Injunctive Relief

⁸ See Makan Delrahim, Assistant Att’y Gen., Antitrust Div., U.S. Dep’t of Justice, *The Long Run: Maximizing Innovation Incentives Through Advocacy and Enforcement*, Remarks as Prepared for the Leadership Conference 6-10 (Apr. 10, 2018), <https://www.justice.gov/opa/speech/file/1050956/download>.

⁹ Korea Fair Trade Comm’n, Decision No. 2017-0-025, *In re Alleged Abuse of Market Dominance of Qualcomm Inc.*, ¶ 393 (Jan. 20, 2017).

¹⁰ See Sci. for Pol’y Rep. of the Joint Res. Ctr., *Making the Rules: The Governance of Standard Development Organizations and their Policies on Intellectual Property Rights*, at 161 (Mar. 15, 2019), https://ec.europa.eu/jrc/sites/jrcsh/files/sdo_governance_final_electronic_version.pdf.

¹¹ See, e.g., Inst. of Electrical & Electronic Eng’rs, *Governance Issues at the Interface of Patents and Standards: What SDOs Can Do to Improve the Current Situation*, at 13, 41-42 (May 4, 2016), http://standards.ieee.org/develop/policies/white_paper.pdf (Mandarin paper arguing the 2015 Letter confirmed the Department’s conclusion that the 2015 IEEE amendments benefits competition and consumers); see also Letter from Senator Thom Tillis & Senator Christopher A. Coons to The Honorable William Pelham Barr & The Honorable Makan Delrahim (Oct. 21, 2019), <https://www.ipwatchdog.com/wp-content/uploads/2019/10/10.21-TT-CC-Ltr-to-DOJ-re-SEP-guidance.pdf> (describing concerns regarding international misuse of the 2015 Letter); Letter from James F. Rill, et al., to The Honorable Makan Delrahim, RE: The Antitrust Division’s 2015 Business Review Letter to IEEE-SA (Feb. 7, 2020) (on file with the Division) (same).

The Policy limits the basket of rights available to an essential patent owner such that it may undercut current US law and policy. As described in the 2015 Letter, the Policy prohibits essential patent holders from seeking or obtaining injunctive relief unless a potential licensee refuses to comply with the outcome of infringement litigation, “including an affirming first-level appellate review.” The Policy also proscribes parties from referencing comparable third-party licenses during licensing negotiations if those third-party licenses were at any point accompanied by an implicit or explicit threat of injunction.¹²

The 2015 Letter contained an observation that the Policy’s unfavorable treatment of injunctive relief was “not out of step with the direction of current U.S. law interpreting RAND”¹³ The Letter also provided that the Federal Circuit had declined to adopt special rules limiting the availability of injunctive relief for essential patents¹⁴ but noted a relatively narrow set of facts whereby “an injunction may be justified[,] where an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect.”¹⁵ The Department went on to state that “we see no reason to create, as some *amici* urge, a separate rule or analytical framework for addressing injunctions for FRAND-committed patents.”¹⁶

The 2015 Letter was generally correct in predicting that U.S. courts and this Department would continue to treat essential patents the same as any other patents for purposes of assessing injunctive relief.¹⁷ The 2015 Letter has proven incorrect, however, in anticipating that “hold-up” would be a competitive problem. Rather, concerns over hold-up as a real-world competition problem have largely dissipated.¹⁸ Indeed, the Ninth Circuit recently “note[d] the persuasive policy arguments of several academics and practitioners with significant experience in SSOs, FRAND, and antitrust enforcement, who have expressed caution about using the antitrust laws to remedy what are essentially contractual disputes between private parties engaged in the pursuit

¹² 2015 Letter, *supra* note 1, at 9 (citation omitted).

¹³ *Id.* at 8.

¹⁴ *Apple, Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1331 (Fed. Cir. 2014), *overruled on other grounds by Williamson v. Citrix Online, LLC*, 792 F.3d 1339 (Fed. Cir. 2015) (en banc).

¹⁵ *Apple*, 757 F.3d at 1332.

¹⁶ *Id.* at 1331–32.

¹⁷ U.S. Dep’t of Justice, USPTO, and NIST, *Joint Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary FRAND Commitments* (Dec. 19, 2019) [hereinafter 2019 Joint Statement on Remedies for Standards-Essential Patents], <https://www.justice.gov/atr/page/file/1228016/download>.

¹⁸ There continues to be little evidence that hold up is a significant problem (much less a competition concern). Makan Delrahim, Assistant Att’y Gen., Antitrust Div., U.S. Dep’t of Justice, The “New Madison” Approach to Antitrust and Intellectual Property Law, Keynote Address at University of Pennsylvania Law School, at 9 (Mar. 16, 2018) [hereinafter New Madison], <https://www.justice.gov/opa/speech/file/1044316/download>; Alexander Galetovic & Stephen Haber, *The Fallacies of Patent-Holdup Theory*, 13 J. Comp. L. & Econ. 1, 8-10 (2017); Alexander Galetovic, Stephen Haber, & Ross Levine, *An Empirical Examination of Patent Hold-Up* (Nat’l Bureau of Econ. Res., Working Paper No. 21090, Apr. 2015), <http://www.nber.org/papers/w21090.pdf>; Anne Layne-Farrar, *Patent Holdup and Royalty Stacking Theory and Evidence: Where Do We Stand After 15 Years of History?*, at 7 (OECD Directorate for Fin. and Enter. Affairs Competition Comm., Dec. 2014), <http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/WD%282014%2984&doclanguage=en>. *But see* A. Douglas Melamed & Carl Shapiro, *How Antitrust Law Can Make FRAND Commitments More Effective* (Stanford Law and Econ., Working Paper No. 510, Nov. 2017), <https://ssrn.com/abstract=3075970>.

of technological innovation.”¹⁹ As a result, courts have analyzed essential patents the same as they would other patents.²⁰ For example, the Ninth Circuit later in 2015 provided that a RAND commitment does not serve as a bar to injunctive action to enforce an essential patent.²¹

Similarly, the Department, along with the USPTO and NIST, updated its position on injunctive relief, withdrawing the 2013 policy on remedies that informed the 2015 Letter.²² Prior to the withdrawal, the Department observed the serious harm to innovation that could arise from limiting injunctive relief:

If a patent holder effectively loses its right to an injunction whenever a licensing dispute arises, or is deterred from seeking an injunction due to the prospect of treble damages, an implementer can freely infringe, knowing that the most he or she will eventually have to pay is a reasonable royalty rate. Implementers have a strong incentive to pursue this course while holding out from taking a license due to the high injunction bar for innovators that make FRAND commitments. It is a harmful arbitrage that should be discouraged.²³

In 2019, the Department replaced the 2013 policy statement with the *Joint Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments*, issued in conjunction with the USPTO and NIST.²⁴ We made this policy change in part because:

the 2013 policy statement has been misinterpreted to suggest that a unique set of legal rules should be applied in disputes concerning patents subject to a F/RAND commitment that are essential to standards (as distinct from patents that are not essential), and that injunctions and other exclusionary remedies should not be available in actions for infringement of standards-essential patents. Such an approach would be detrimental to a carefully balanced patent system, ultimately resulting in harm to innovation and dynamic competition.²⁵

The recent policy and jurisprudential positions declining to infer diminished rights for essential patent holders as part of a FRAND commitment flow from the consensus view in the United States that seeking an injunction is an “exclusive right” conferred by the U.S.

¹⁹ *FTC v. Qualcomm Inc.*, No. 19-16122, slip op. at 39 (9th Cir. Aug. 11, 2020).

²⁰ This approach extends beyond injunctive relief, as well. Recently, in *FTC v. Qualcomm*, the Ninth Circuit specifically declined to “adopt an additional exception . . . to the general rule that ‘businesses are free to choose the parties with whom they will deal, as well as the prices, terms, and conditions of that dealing,’” even when SEPs are involved. *Qualcomm*, slip op. at 40 (quoting *Pac. Bell Tel. Co. v. linkLine Commc’ns, Inc.*, 555 U.S. 438, 448 (2009)).

²¹ *Microsoft Corp. v. Motorola, Inc.*, 795 F.3d 1024, 1048 n.19 (9th Cir. 2015) (stating “that a RAND commitment does not always preclude an injunctive action to enforce the SEP”).

²² U.S. Dep’t of Justice and USPTO, *Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments* (Jan. 8, 2013), <https://www.justice.gov/atr/page/file/1118381/download>; 2019 Joint Statement on Remedies for Standards-Essential Patents, *supra* note 17.

²³ Delrahim, New Madison, *supra* note 18, at 14.

²⁴ 2019 Joint Statement on Remedies for Standards-Essential Patents, *supra* note 17.

²⁵ *Id.* at 4.

Constitution. This important right promotes dynamic competition by ensuring that there are strong incentives to invest in new technologies.²⁶ Injunctive relief is a critical enforcement mechanism and bargaining tool—subject to traditional principles of equity²⁷—that may allow a patent holder (including an essential patent holder) to obtain the appropriate value for its invention when a licensee is unwilling to negotiate reasonable terms.²⁸ Denying essential patent holders access to injunctive relief has the potential to lessen returns for inventors and thereby to harm incentives for future innovation.²⁹

B. Defining a Reasonable Rate

The Policy also appears to have limited the scope of available royalties more narrowly than current case law or policy would endorse. The 2015 Letter examined the Policy’s treatment of FRAND royalty rates, which in part recommended the use of the smallest saleable patent practicing unit (“SSPPU”) as the appropriate royalty base for SEPs.³⁰ As with injunctive relief, the 2015 Letter concluded that the Policy’s “specific provisions are not out of step with the direction of current U.S. law interpreting [F]RAND commitments” or U.S. patent damages law.³¹

The Department’s assessment in 2015 of the “direction” of U.S. law interpreting FRAND commitments on royalty rates and damages assessments was not well-supported and has not proven accurate. At the time, the law in this area was generally undeveloped, with a handful of cases addressing interpretations of the meaning and implications of FRAND commitments in specific SDO contracts.

Since the 2015 Letter, the case law on FRAND and patent damages has developed to include various means of determining royalties and damages. For example, the Federal Circuit in

²⁶ Makan Delrahim, Assistant Att’y Gen., Antitrust Div., U.S. Dep’t of Justice, Protecting Free-Market Patent Bargaining, Competition, and the Right to Exclude, Remarks as Prepared for the Federal Circuit Bar Association Global Series 2018, at 3-4 (Oct. 10, 2018) [hereinafter Free Market Bargaining], <https://www.justice.gov/opa/speech/file/1100016/download>.

²⁷ See *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006).

²⁸ See also Richard A. Epstein & Kayvan B. Noroozi, *Why Incentives for “Patent Holdout” Threaten to Dismantle Frand, and Why It Matters*, 32 Berkeley Tech. L.J. 1381, 1408 (2017) [hereinafter, Epstein & Noroozi, Patent Holdout] (“The use of the injunction, suitably restrained in cases of bad faith assertion by the patentee, is an essential component of an overall systematic strategy designed to prevent the disintegration of the voluntary market. A tool that is essential in simple two-party patent disputes does not lose its appeal in the context of SEPs.”) In December 2017, the Antitrust Division withdrew DOJ support for the 2013 Joint DOJ-PTO Policy Statement on SEP remedies because it had been misinterpreted to suggest that a special set of legal rules applied to SEPs and that certain remedies (injunctions or exclusionary remedies) would, on balance, harm competition. See e.g., Makan Delrahim, Assistant Att’y Gen., Antitrust Div., U.S. Dep’t of Justice, “Telegraph Road”: Incentivizing Innovation at the Intersection of Patent and Antitrust Law, Remarks as Prepared for the 19th Annual Berkeley-Stanford Advanced Patent Law Institute, at 6-7, 12 (Dec. 7, 2018), <https://www.justice.gov/opa/speech/file/1117686/download> (“Patent policies affect the incentives for innovation. If an SSO’s policy is too restrictive for one side or the other, it also risks deterring participation in procompetitive standard setting.”).

²⁹ See Delrahim, Free Market Bargaining, *supra* note 26, at 8.

³⁰ 2015 Letter, *supra* note 1, at 12-14.

³¹ *Id.* at 8.

2018 emphasized that there are “a variety of ways” parties might value patented technology.³² One method includes using the SSPPU as a royalty base; but the Court noted that another equally viable method involves “using the accused [end-product] as a royalty base and apportioning through the royalty rate.”³³ Similarly, the Ninth Circuit recently reiterated the Federal Circuit’s finding that SSPPU as well as end-product based calculations may be viable options, and rejected the notion that not relying on the former “exposes a firm to potential antitrust liability.”³⁴

Although the Policy does not require the use of SSPPU as a baseline, the fact that it is a “recommended” factor likely will bear on the parties’ negotiations of a license and may affect the extent to which comparable prior licenses (not based on SSPPU) may factor into royalty negotiations. The absence of other recommended factors, not based on the SSPPU,³⁵ increases the likelihood that SSPPU will play an important—and potentially outsized—role in these negotiations.

The 2015 Letter highlighted the potential benefits of the SSPPU approach but could not account for the potential drawbacks that have come into sharper relief in the years since. One key risk in relying solely on the smallest saleable unit method, to the exclusion of others, is that real-world licenses often set royalties based on end-product revenue.³⁶ Parties should not be discouraged from relying on these licenses—particularly since this sort of market-based evidence is often “the most effective method of estimating [an] asserted patent’s value.”³⁷

Courts also have recognized risks in using an end product as the royalty base for determining patent damages on a complex product. These risks, however, largely stem from

³² *Exmark Mfg. Co. v. Briggs & Stratton Power Prod. Grp., LLC*, 879 F.3d 1332, 1348 (Fed. Cir. 2018).

³³ *Id.*

³⁴ *Qualcomm*, slip op. at 43 (“[S]ophisticated parties routinely enter into license agreements that base the value of the patented inventions as a percentage of the commercial products’ sales price,’ and thus ‘[t]here is nothing inherently wrong with using the market value of the entire product.’” (quoting *Exmark*, 879 F.3d at 1349)).

³⁵ The third recommended factor would allow consideration of “[e]xisting licenses covering use of the Essential Patent Claim, where such licenses were not obtained under the explicit or implicit threat of a Prohibitive Order,” 2015 Letter, *supra* note 1, at 12, and the implications of limiting injunctive relief is discussed above in Section II.A., Acknowledging Essential Patent Holders’ General Right to Seek Injunctive Relief.

³⁶ *Exmark Mfg. Co.*, 879 F.3d at 1349; *see also Qualcomm*, slip op. at 38, 34 (noting that licensing at the OEM level appeared “consistent with current industry practice”).

³⁷ *Commonwealth Sci. & Indus. Research Org. v. Cisco Sys.*, 809 F.3d 1295, 1303-04 (Fed. Cir. 2015) (cautioning against “mak[ing] it impossible for a patentee to resort to license-based evidence” (quoting *Ericsson, Inc. v. D-Link Sys.*, 773 F.3d 1201, 1228 (Fed. Cir. 2014))); Brief for the United States as Amicus Curiae at 12, *HTC Corp. v. Telefonaktiebolaget LM Ericsson*, Nos. 19-40566, 19-40643, 2019 WL 5690838 (5th Cir. Oct. 30, 2019) [hereinafter HTC Brief] (quoting *Commonwealth*, 809 F.3d at 1303-04); *see also* Alexander Galetovic and Stephen Haber, *SEP Royalties: What Theory of Value and Distribution Should Courts Apply?*, at 4 (Hoover Inst. Working Grp. on Intell. Prop., Innovation, and Prosperity, IP² Working Paper No. 19001, 2019), <https://www.hoover.org/research/sep-royalties-what-theory-value-and-distribution-should-courts-apply> (“[I]n adjudicating the value of SEPs, courts should do what they normally do in pricing an asset or the flow of income it produces; rely on information from the market”).

concerns about how end-product revenues might skew juries' awards. For example, the Federal Circuit noted in *Ericsson v. D-Link Systems*: "It is not that an appropriately apportioned royalty award could never be fashioned by starting with the entire market value of a multi-component product . . . it is that reliance on the entire market value might mislead the jury."³⁸ Similarly, the Ninth Circuit in *FTC v. Qualcomm* reiterated that, "No court has held that the SSPPU concept is a per se rule for 'reasonable royalty' calculations; instead, the concept is used as a tool in jury cases to minimize potential jury confusion when the jury is weighing complex expert testimony about patent damages."³⁹ In this respect, the rules for calculating damages need not be coextensive with the rules governing how sophisticated parties negotiate licenses.⁴⁰

Ultimately, there is no single correct way to calculate a reasonable royalty in the FRAND context. The Department believes parties should be given flexibility to fashion licenses that reward and encourage innovation. The Federal Circuit's recent case law underscores this point.

C. Guarding Against Hold Out

The Policy and the 2015 Letter also did not dedicate attention to potentially harmful implementer conduct seeking to undermine the bargaining position of patent owners in the standards development process. The 2015 Letter focused on the risk of so-called "hold up" by patent-holders⁴¹ without considering the possibility of "hold out" by patent implementers or the Policy's effect on patent holders' innovation incentives.⁴² Yet studies and analyses conducted in the intervening years about hold out have confirmed that these are serious concerns, as well.⁴³

³⁸ *Ericsson*, 773 F.3d at 1227. Even critics skeptical of the use of prior licenses in calculating patent damages awards recognize their value when the licenses are negotiated on FRAND terms. *See also* Erik Hovenkamp & Jonathan Masur, *How Patent Damages Skew Licensing Markets*, 36 Rev. Litig. 379 (2017) (generally cautioning against using comparable licenses to calculate damages award, because over-reliance on licenses might skew how parties subsequently negotiate licenses, but acknowledging that prior licenses in the RAND context are "one possible exception" to this rule).

³⁹ *Qualcomm*, slip op. at 42.

⁴⁰ *See* HTC Brief, *supra* note 37, at 19–20.

⁴¹ *See* 2015 Letter, *supra* note 1, at 6 n.28, 9, 12, 15, 16. As noted above, at least one appellate court and several academics and practitioners have also expressed skepticism regarding the increasing frequency of attempts to resolve alleged FRAND licensing disputes through antitrust, rather than contract, law. *See, e.g., Qualcomm*, slip op. at 39–40, 56.

⁴² *See, e.g.,* Marco Lo Bue, *Patent Holdup and Holdout Under the New IEEE's IP Policy: Are These Breaches of Competition Law?*, at 35 (MIPLC Master Thesis Series, 2015/16), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2885364 ("[T]he DoJ has implicitly expressed more concern for the effect of patent holdup than for the consequence of potential 'reverse holdup', or 'patent holdout.'"); Roy E. Hoffinger, *The 2015 DOJ IEEE Business Review Letter: The Triumph of Industrial Policy Preferences Over Law and Evidence*, CPI Antitrust Chronicle, Mar. 2015, <https://www.competitionpolicyinternational.com/file/view/7357>; J. Gregory Sidak, *The Antitrust Division's Devaluation of Standard-Essential Patents*, 104 Geo. L.J. Online 48 (2015), <https://www.law.georgetown.edu/georgetown-law-journal/glj-online/104-online/the-antitrust-divisions-devaluation-of-standard-essential-patents/>.

⁴³ *See, e.g.,* Epstein & Noroozi, *Patent Holdout*, *supra* note 28, at 1408; Bowman Heiden & Nicolas Petit, *Patent "Trespass" and the Royalty Gap: Exploring the Nature and Impact of Patent Holdout*, 34 Santa Clara High Tech. L.J. 179 (2018).

The Department since has recognized that “[c]ondemning [hold up], in isolation, as an antitrust violation, while ignoring equal incentives of implementers to ‘hold out,’ risks creating ‘false positive’ errors of over-enforcement that would discourage valuable innovation.”⁴⁴

Taking account of possible concerns about both unilateral and coordinated conduct is particularly important when, as is often the case in the SDO context, sophisticated parties at different times can end up on either the innovator or implementer side of negotiations. Hold out can significantly undermine innovation incentives⁴⁵ and deserves consideration in SDO licensing policies. Therefore, any SDO policy updates should encourage good-faith bilateral licensing negotiation by both patent holders *and* implementers.

III. Concluding Thoughts on Harm to Innovation and the SDO Process

The 2015 Letter assumed that the aspects of the Policy discussed above would create greater clarity and certainty in licensing negotiations and thereby yield procompetitive benefits.⁴⁶ Unfortunately, these procompetitive benefits do not appear to have materialized and the Policy seems instead to have dampened enthusiasm for the IEEE process.

Since the Policy went into effect, reports show that negative assurances—those in which a technology contributor declines to give a RAND assurance—have increased significantly, comprising 77% of the total WiFi Letters of Assurance at IEEE between January 2016 and June 2019.⁴⁷ As a result, in 2019, the American National Standards Institute—a leading non-governmental body that accredits US standards—declined to approve two proposed IEEE standards amending the 802.11 WiFi standard.⁴⁸ The Policy also appears to have led to delays in disclosures of licensing intentions, reducing the overall clarity of patents potentially relevant to standards under development.⁴⁹

Given the important issues and potential harms identified in this Letter, the Department would encourage IEEE to consider whether changes to its Policy may now be warranted. As part

⁴⁴ Delrahim, New Madison, *supra* note 18, at 8.

⁴⁵ *See id.* at 10-11; Epstein & Noroozi, Patent Holdout, *supra* note 28, at 1411-1412.

⁴⁶ 2015 Letter, *supra* note 1, at 10-13, n. 49. The 2015 Letter asserted that “this provision [of the Policy] furthers the procompetitive goal of providing greater clarity regarding the IEEE RAND Commitment concerning the availability of prohibitive orders, which could facilitate licensing negotiations, limit patent infringement litigation, and enable parties to reach mutually beneficial bargains that appropriately value patented technology.” *Id.* at 11.

⁴⁷ David L. Cohen, *The IEEE 2015 Patent Policy – A Natural Experiment in Devaluing Technology*, Kidon IP (Aug. 12, 2019), <https://www.kidonip.com/news/the-ieee-2015-patent-policy-a-natural-experiment-in-devaluing-technology/>; *see also* Aldrin Brown, *No change to IEEE SEP policy planned despite uptick in resistance*, PaRR (Dec. 12, 2019); *IEEE SA Records of IEEE Standards-Related Patent Letters of Assurance*, IEEE SA <https://standards.ieee.org/about/sasb/patcom/patents.html> (last visited May 6, 2020) (reviewing 802.11 Letters of Assurance from Jan. 1, 2016 to June 30, 2019).

⁴⁸ Leah Nysten, *Electrical Engineer Institute’s New WiFi Measures Won’t Get American National Standard Designation*, MLex (Mar. 11, 2019), <https://mlexmarketinsight.com/insights-center/editors-picks/antitrust/cross-jurisdiction/electrical-engineer-institutes-new-wifi-measures-wont-get-american-national-standard-designation>.

⁴⁹ *See, e.g.*, Richard Lloyd, *Huawei Joins the IEEE Patent Refuseniks Four Years Since Controversial Policy Change*, IAM Media (May 17, 2019), <https://www.iam-media.com/frandseps/huawei-joins-ieee-patent-refuseniks-four-years-controversial-policy-change>.

of this consideration, the Department would emphasize the need for an open, balanced, and transparent process for standards development, which is critical to innovation. When the Department considered IEEE’s Policy update in 2015, it heard a number of concerns that the IEEE’s process for adopting the Policy was not balanced. The Department found, at the time, that the IEEE’s “process afforded considerable opportunity for comment on and discussion of the [policy changes]” and ultimately could not conclude that it raised antitrust concerns.⁵⁰ The 2015 Letter stated, however, that the Department takes seriously such process concerns: “If a standards-setting process is biased in favor of one set of interests, there is a danger of anticompetitive effects and antitrust liability.”⁵¹

The Department’s recent action related to the GSM Association (“GSMA”), a trade association for mobile network operators, demonstrates the importance of open and balanced processes. Following a two-year investigation into GSMA’s standard-setting activities, the Department determined the GSMA had misused its industry influence to limit competition and to steer the design of eSIMs technology in mobile devices by excluding certain stakeholders (non-operators) from decision-making roles.⁵² In response to the Department’s investigation, the GSMA drafted new standard-setting procedures designed to curb the ability of certain stakeholders anticompetitively to prevent the emergence of disruptive technologies. Among other things, the new rules require that the standards-approving group obtain approval from separate majorities of the relevant operator and non-operator members, thereby breaking the complete control that operators previously had over approval.⁵³ This investigation highlighted the potential pitfalls inherent to unbalanced or opaque standards development processes.⁵⁴

⁵⁰ 2015 Letter, *supra* note 1, 7-8.

⁵¹ *Id.* at 7 (citing *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 511 (1988)).

⁵² Letter from Makan Delrahim, Assistant Att’y Gen., Antitrust Div., U.S. Dep’t of Justice, to Timothy Cornell, Esq., Clifford Chance US LLP (Nov. 27, 2019) [hereinafter GSMA Letter], <https://www.justice.gov/atr/page/file/1221321/download>; Press Release, U.S. Dep’t of Justice, Justice Department Issues Business Review Letter to the GSMA Related to Innovative eSIMs Standard for Mobile Devices (Nov. 27, 2019), <https://www.justice.gov/opa/pr/justice-department-issues-business-review-letter-gsma-related-innovative-esims-standard>.

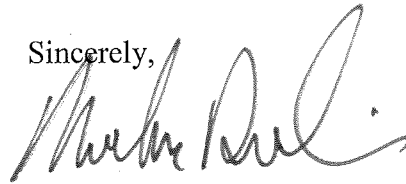
⁵³ GSMA Letter, *supra* note 52, at 10-11. In addition, the Department has urged the American National Standards Institute (ANSI) to promote balanced representation in decisional bodies so that diverse interests are represented and SDO decisions do not shift bargaining leverage in favor of one set of economic interests, including the interests of either implementers or patent holders. *See* Letters from Andrew Finch, Principal Deputy Assistant Att’y General, Antitrust Div. to Patricia Griffin, Vice President and General Counsel, Am. Nat’l Standards Inst. (Oct. 11, 2018), <https://www.justice.gov/atr/page/file/1100611/download>, and (Mar. 7, 2018), <https://www.justice.gov/atr/page/file/1043456/download>.

⁵⁴ Furthermore, antitrust concerns are elevated if an SDO has *de facto* market power in certain standards. For example, a patent holder’s technology may be entrenched in a particular SDO’s series of standards, thus making it difficult for the patent holder to depart to other SDOs—it may have no alternative way to effectively license its technology. *See* Lisa Kimmel, *Standards, Patent Policies, and Antitrust: A Critique of IEEE-II*, 29 Antitrust 18, 22 (Summer 2015) (“IEEE is an established SDO with a long history in the development of successive generations of core ICT sector standards, such as the 802.11 family of WiFi standards. The need for newly manufactured products to be ‘backward-compatible’ would make switching difficult if not impossible. Moreover, switching would generate

The Department's position regarding balanced processes is consistent with OMB Circular A-119, which states that intellectual property rights policies "should . . . take into account the interests of all stakeholders, including the IPR holders and those seeking to implement the standard."⁵⁵ As experience has shown, a group of implementers working collectively may have both the motive and the means to impose anticompetitive policies or rules that favor their interests to the detriment of others'.⁵⁶ Any such collusion can also be a serious threat to innovation if the conduct leads to under-investment by patent holders in the standard-setting process. Balance is therefore important not only to encourage participation and competition among patent holders in the standard-setting process, but also to ensure more significant antitrust concerns do not arise.

The rules that govern standard setting activity should be unbiased in order to maximize participation and to allow SDOs to achieve the best technical solutions in their standards. We encourage IEEE to consider whether changes are needed to promote full participation, competition, and innovation in IEEE's standard setting activities.

Sincerely,



Makan Delrahim

significant coordination issues, not unlike those implementers would face trying to design around a single technology after a complex standard has been developed and adopted.”).

⁵⁵ See Off. of Mgmt. and Budget, Exec. Off. of the President, Revision of OMB Circular A-119, “Federal Participation in the Development and Use of Voluntary Consensus Standards and in Conformity Assessment Activities,” 81 Fed. Reg. 4673 (Jan. 27, 2016), <https://www.nist.gov/document/revisecirculara-119asof01-22-2016pdf>.

⁵⁶ See *Allied Tube*, 486 U.S. at 509-511 (affirming court of appeals' reinstatement of a jury verdict awarding damages for a Sherman Act violation where producers and sellers of steel conduit had packed a meeting with new members whose sole function was to vote against a proposal to allow the use of equally viable plastic conduit in the building industry); *Am. Soc'y of Mech. Eng'rs v. Hydrolevel Corp.*, 456 U.S. 556, 574 (1982) (finding SDO liable for actions of its agents acting with apparent authority to discourage customers from purchasing one competitor's water boiler safety device by deceptively indicating it did not comply with SDO standard).