



## The Proper Role of Antitrust in Addressing Patent Hold-Up

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The antitrust agencies and lawmakers continue to focus on the problem of hold-up involving standard-essential patents (SEPs). Last month, the Federal Trade Commission (FTC) responded to comments and finalized the order in the Google/Motorola Mobility investigation. Soon afterwards, the Senate Judiciary Committee held hearings on antitrust and competition policy issues related to SEPs. But what role can and should antitrust law play in addressing unilateral conduct in involving SEPs, and in particular what role should it play in addressing patent hold-up?

### Understanding the Problem

To properly understand the problem, it is important to keep in mind that vast numbers of licenses to SEPs have been negotiated and entered into without any intervention. The potential problem arises when a SEP holder has made a commitment to license on reasonable and nondiscriminatory (RAND)<sup>1</sup> terms and then seeks to use injunctive relief as leverage in negotiations to obtain an unjustifiably higher royalty than would have been possible ex ante. Such conduct is known as a form of patent “hold-up.” As the courts, the Antitrust Division of the Department of Justice (DOJ), the FTC, and the Patent and Trademark Office (PTO) have explained, the threat of hold-up arises from the likely difficulty and expense of switching to a different technology once a standard is adopted.<sup>2</sup> “This lock-in confers market power

on the owners of the incorporated patents,” which SEP holders may seek to take advantage of by engaging in hold-up.<sup>3</sup> According to the DOJ, “[t]his type of hold-up [i.e., seeking injunctive relief or an unjustifiably higher royalty rate] raises particular competition concerns when alternative technologies that could have been included in the standard were instead excluded from it.”<sup>4</sup>

Hold-up and the threat of hold-up may cause numerous problems such as “deter[ing] innovation by increasing costs and uncertainty for other industry participants, including other patent holders”<sup>5</sup>; “induc[ing] users to postpone or avoid incorporating standardized technology in their products”<sup>6</sup>; “slow[ing] the adoption of new standards or reduc[ing] the royalties other SEP owners earn because the standard is not widely adopted as anticipated”<sup>7</sup>; and harm to consumers in the form of higher prices.<sup>8</sup>

### Possible Implications of Making a RAND Commitment

Many contend that making a RAND commitment is inconsistent with seeking injunctive relief. As the Ninth Circuit stated, “[i]mplicit in such a sweeping promise is, at least arguably, a guarantee that the patent holder will not take steps to keep would-be users from using the patented material, such as seeking an injunction, but will instead proffer licenses consistent with the commitment made.”<sup>9</sup> Similarly, in *Apple v. Motorola*, Judge Posner stated, “I don’t see how, given FRAND, I would be justified in enjoining Apple from infringing the ‘898 [patent] unless Apple refuses to pay a royalty that meets the FRAND requirement. By committing to license its patents on FRAND terms, Motorola committed to license the ‘898 to anyone willing to pay a FRAND royalty and thus implicitly acknowledged that a

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<sup>1</sup> “RAND” is the common terminology used in the United States, while “FRAND,” or fair, reasonable, and nondiscriminatory terms, is commonly used in Europe and elsewhere. The terms are often used interchangeably to denote the same substantive type of commitment.

<sup>2</sup> See, e.g., *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217, \*\*10-11 (W.D. Wash. 2013); DOJ and PTO Policy Statement on Remedies for Standard-Essential Patents Subject to Voluntary F/RAND Commitments at 4 (Jan. 8, 2013), available at <http://www.justice.gov/atr/public/guidelines/290994.pdf> (“1/8/13 DOJ-PTO Policy Statement”); Renata B. Hesse Speech Presented at Global Competition Review 2nd Annual Antitrust Law Leaders Forum at 16-17 (Feb. 8, 2013), available at <http://www.justice.gov/atr/public/speeches/292573.pdf> (“2/8/13 Hesse Speech”); Prepared Statement of the FTC Before the U.S. Senate Committee on the Judiciary Subcommittee on Antitrust, Competition Policy and Consumer Rights Concerning “Standard Essential Patent Disputes and Antitrust Law” at 4-5 (July 30, 2013), available at <http://www.judiciary.senate.gov/pdf/7-30-13MunckTestimony.pdf> (“7/30/13 FTC Statement”).

<sup>3</sup> 2/8/13 Hesse Speech at 16-17.

<sup>4</sup> *Id.* at 17.

<sup>5</sup> 7/30/13 FTC Statement at 5 (citing FTC, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* at 234, available at <http://www.ftc.gov/os/2011/03/110307patentreport.pdf>; FTC-DOJ, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* at 36 (2007), available at <http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf>).

<sup>6</sup> 2/8/13 Hesse Speech at 17; see also e.g., *Microsoft Corp. v. Motorola Inc.*, 2013 WL 2111217, at \*10-11 (W.D. Wash. 2013); 1/8/13 DOJ-PTO Policy Statement at 4; 7/30/13 FTC Statement at 5.

<sup>7</sup> 2/8/13 Hesse Speech at 17; see also e.g., 1/8/13 DOJ-PTO Policy Statement at 4; 7/30/13 FTC Statement at 5.

<sup>8</sup> See, e.g., *Microsoft Corp.*, 2013 WL 2111217, at \*10-11; 2/8/13 Hesse Speech at 17; 1/8/13 DOJ-PTO Policy Statement at 4; 7/30/13 FTC Statement at 5.

<sup>9</sup> *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 885 (9th Cir. 2012).



royalty is adequate compensation for a license to use that patent.”<sup>10</sup>

Those who believe a RAND commitment precludes seeking injunctive relief often claim a SEP owner cannot prove irreparable harm or the inadequacy of money damages under the Supreme Court’s 2006 decision in *eBay v. MercExchange*.<sup>11</sup> Prior to *eBay*, permanent injunctive relief was virtually automatic following a district court’s finding of infringement given the general presumption of irreparable harm. In *eBay*, a unanimous Supreme Court rejected the presumption of irreparable harm and other categorical approaches in favor of a case-by-case application of “traditional equitable principles,” including requiring proof of the patent holder’s irreparable harm and the inadequacy of money damages. In December 2012, the FTC submitted an amicus brief to the Federal Circuit supporting a district court’s denial of injunctive relief to a RAND-encumbered SEP holder, and taking the position that *eBay* “provides a framework that courts can use to mitigate the risk of patent hold-up.”<sup>12</sup> Specifically, the FTC agreed with the district court’s determination that Motorola could not establish that it would be irreparably harmed or that monetary relief (an ongoing royalty) would be inadequate where Motorola had committed to license its SEPs on FRAND terms.

### Possible Roles for Antitrust and the Meaning of a “Willing Licensee”

Many, including the DOJ, the FTC, and the European Commission (EC), have suggested that antitrust should be used to address patent hold-up in the standard-setting context.<sup>13</sup>

Others have rejected this notion, contending that contract law is a superior vehicle to address the issue.<sup>14</sup> While the FTC has

looked beyond contract law to enjoin hold-up, it has done so under Section 5 of the FTC Act. For example, in *Google/Motorola*, the FTC alleged that Google engaged in unfair methods of competition by breaching its commitment to standard-setting organizations (SSOs) when it sought to enjoin and exclude willing licensees of its FRAND-encumbered SEPs.<sup>15</sup> The Final Decision and Order specifically provide that Google and Motorola are not precluded from seeking injunctive relief against a potential licensee who: (1) is outside the jurisdiction of the U.S. District Courts; (2) has stated in writing or in sworn testimony that it will not license the FRAND patent on any terms; (3) refuses to enter a license agreement on terms that have been set by a court or through binding arbitration; or (4) does not provide the written confirmation requested in a FRAND Terms Letter within thirty (30) days of when the letter was delivered.<sup>16</sup>

Similarly, the EC recently sent Statements of Objections to Samsung<sup>17</sup> and Motorola Mobility<sup>18</sup> informing them of “its preliminary view” that seeking injunctions against willing licensees on the FRAND-encumbered SEPs amounts to an abuse of a dominant position prohibited by EU antitrust rules.

According to Joaquín Almunia, Commission Vice President in charge of competition policy, “[w]hen companies have contributed their patents to an industry standard and have made a commitment to license the patents in return for fair remuneration, then the use of injunctions against willing licensees can be anti-competitive.”<sup>19</sup>

<sup>10</sup> *Apple v. Motorola, Inc.*, 869 F. Supp. 2d 901, 913-14 (N.D. Ill. 2012).

<sup>11</sup> 547 U.S. 388 (2006).

<sup>12</sup> Brief for FTC as Amicus Curiae Supporting Neither Party, *Apple Inc. and NeXT Software, Inc. v. Motorola, Inc. and Motorola Mobility, Inc.*, Nos. 2012-1548, 2012-1549 at 7 (Fed. Cir. Dec. 4, 2012), available at <http://www.ftc.gov/os/2012/12/121205apple-motorolaamicusbrief.pdf>. Commissioner Ohlhausen did not vote in favor of submitting the brief, and Commissioner Wright was not a member of the Commission when the brief was filed.

<sup>13</sup> See, e.g., 7/30/13 FTC Statement at 1; 2/8/13 Hesse Speech at 19; EC Press Release, Antitrust: Commission sends Statement of Objections to Samsung on potential misuse of mobile phone standard-essential patents (Dec. 12, 2012), available at [http://europa.eu/rapid/press-release\\_IP-12-1448\\_en.htm](http://europa.eu/rapid/press-release_IP-12-1448_en.htm) (“EC Press Release re Samsung”).

<sup>14</sup> See, e.g., Herbert J. Hovenkamp, *Standards Ownership and Competition Policy*, 48 B.C.L. REV. 87, 106 (2007). Courts that have addressed the issue of failure to adhere to a FRAND commitment have done so under contract law principles, and a Washington federal jury recently found that Motorola’s conduct in seeking injunctive relief violated its duty of good faith and fair dealing with respect to its contractual commitments to the IEEE and the ITU.

*Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d 1061 (W.D. Wis. 2012); *Microsoft Corp. v. Motorola, Inc.*, 854 F. Supp. 2d 993, 999-1001 (W.D. Wash. 2012), *reaffirmed*, 864 F. Supp. 2d 1023, 1030-33 (W.D. Wash. 2012), *aff’d in relevant part*, 696 F.3d 872, 884 (9th Cir. 2012); Verdict Form, *Microsoft v. Motorola*, Case No. C10-1823JLR at 3 (Sept. 4, 2013). Many economists have long viewed the holdup problem and ex post opportunism as a contract problem rather than antitrust problem. See, e.g., Benjamin Klein, Market Power in Antitrust: Economic Analysis After Kodak, 3 S. Ct. Econ. Rev. 43, 62-63 (1993); Benjamin Klein, Robert G. Crawford & Armen A. Alchian, Vertical Integration, Appropriable Rents, and the Competitive Contracting Process, 21 J. Law & Econ. 297, 302 (1978); Oliver E. Williamson, Markets and Hierarchies: Analysis and Antitrust Implications 26-30 (1975).

<sup>15</sup> See, e.g., Complaint, *In the Matter of Motorola Mobility LLC, and Google Inc.*, Docket No. C-4410 ¶ 1 (July 23, 2013), available at <http://ftc.gov/os/caselist/1210120/130724googlemotorolacmpt.pdf>.

<sup>16</sup> Decision and Order, *In the Matter of Motorola Mobility LLC, and Google Inc.*, Docket No. C-4410 Section II.E (July 23, 2013), available at <http://ftc.gov/os/caselist/1210120/130724googlemotorolado.pdf>.

<sup>17</sup> EC Press Release re Samsung.

<sup>18</sup> EC Press Release, Antitrust: Commission sends Statement of Objections to Motorola Mobility on potential misuse of mobile phone standard-essential patents (May 6, 2013), available at [http://europa.eu/rapid/press-release\\_IP-13-406\\_en.htm](http://europa.eu/rapid/press-release_IP-13-406_en.htm).

<sup>19</sup> EC Press Release re Samsung at 1.



With respect to the definition of a “willing licensee,” the EC stated that its “preliminary view is that the acceptance of binding third party determination for the terms of a FRAND licence . . . is a clear indication that a potential licensee is willing to enter into a FRAND licence.”<sup>20</sup> “By contrast, a potential licensee which remains passive and unresponsive to a request to enter into licensing negotiations or is found to employ clear delaying tactics cannot be generally considered as ‘willing.’”<sup>21</sup> The EC further stated that, in its “preliminary view, the fact that the potential licensee challenges the validity, essentiality or infringement of the SEP does not make it unwilling where it otherwise agrees to be bound by the determination of FRAND terms by a third party.”<sup>22</sup>

Others, however, have expressed deep skepticism about the applicability of antitrust to address hold-up. For example, Commissioner Wright has stated that “antitrust laws are not well suited to govern contract disputes between private parties in light of remedies available under contract or patent law.”<sup>23</sup> According to Commissioner Wright, “[w]here antitrust laws can and should come into play is when participants abuse and manipulate the standard setting process to exclude competitors from the market,” i.e., naked price-fixing or deception that results in the acquisition of market power.<sup>24</sup>

Many, including FTC Commissioners Maureen Ohlhausen and Wright, contend that RAND commitments “generally should not be interpreted or implied to prohibit the pursuit of injunctive relief by a SEP holder, including any conduct reasonably ancillary to pursuing such relief, unless the prohibition is expressly provided for in a RAND commitment or clearly acknowledged by a SEP holder.”<sup>25</sup> Commissioners Ohlhausen and Wright believe that “it is important to recognize that a predictable threat of injunction can create a significant deterrent to infringement and can promote licensing that allows the SEP holder to obtain the full market value for the patent without costly litigation,” and that “private licensing agreements are generally preferable to court fashioned rates because the parties will have better information about the appropriate terms of a license than would a court, and more flexibility in fashioning

efficient agreements.”<sup>26</sup> Still others, including Commissioner Ohlhausen, contend that seeking injunctive relief on a patent, whether a SEP or non-SEP, constitutes protective petitioning of the government under the Noerr-Pennington doctrine.<sup>27</sup>

Commissioner Wright and others also argue that applying antitrust to private SSO contracts may have the unintended consequence of increasing the likelihood of reverse hold-up, i.e., the situation where a firm using the SEP delays good faith negotiations of a FRAND license. “By stripping the SEP holder’s right to injunctive relief, a potential licensee can delay good faith negotiation of a FRAND license and the patent holder can be forced to accept less than fair market value for the use of the patents.”<sup>28</sup> Many people have also expressed concern that using antitrust to expand express SSO commitments risks undermining the standard-setting process by discouraging participation. The costs of deterring participation in SSOs include: SSOs selecting inferior technology; market fragmentation between competing technologies; the risk of undermining the very purpose of SSOs, which among other things, facilitate compatibility and interoperability, reduce consumer costs, and advance innovation; and the risk that non-SEPs may be used to hold-up SEP owners.<sup>29</sup>

Others have relied on eBay to contend that, given the “high bar” it sets, only truly unwilling licensees will be subject to injunctive relief, and thus “there is no reason to believe that SEP owners have undue leverage over potential licensees or that FRAND commitments do not achieve the balance in interests.”<sup>30</sup>

Still others contend that a possible reason not to apply antitrust laws to FRAND agreements (absent price-fixing or deception resulting in acquisition of market power) is that there are market-based factors that may mitigate the risk of hold-up. As the FTC’s Chief Counsel for Intellectual Property recently testified before the Senate Judiciary Committee, these market-based factors include: (1) reputational costs that could be sufficiently

<sup>26</sup> *Id.* at 8 n.26 (citations omitted).

<sup>27</sup> See, e.g., Statement of Commissioner Maureen K. Ohlhausen, *In the Matter of Robert Bosch GmbH*, Docket No. 121-0081 at 1 (Nov. 25, 2012), available at

<http://www.ftc.gov/os/caselist/1210081/121126boschohlhausenstatement.pdf>; Dissenting Statement of Commissioner Maureen Ohlhausen, *In the Matter of Motorola Mobility LLC and Google Inc.*, Docket No. 121-0120 at 1 (Jan. 3, 2013), available at <http://ftc.gov/os/caselist/1210120/130103googlemotorolaohlhausenstmt.pdf> (citations omitted).

<sup>28</sup> 9/12/13 Wright Speech at 30.

<sup>29</sup> See, e.g., *id.* at 27.

<sup>30</sup> Testimony of Donald J. Rosenberg Before the U.S. Senate Committee on the Judiciary Antitrust, Competition Policy and Consumer Rights Subcommittee at 11 (July 30, 2013), available at <http://www.judiciary.senate.gov/pdf/7-30-13RosenbergTestimony.pdf>.

<sup>20</sup> EC Memo re Statement of Objections Against Motorola (May 6, 2013), available at [http://europa.eu/rapid/press-release\\_MEMO-13-403\\_en.htm](http://europa.eu/rapid/press-release_MEMO-13-403_en.htm).

<sup>21</sup> *Id.*

<sup>22</sup> *Id.*

<sup>23</sup> Remarks of Commissioner Joshua W. Wright, “SSOs, FRAND, and Antitrust: Lessons from the Economics of Incomplete Contracts” at 32 (Sept. 12, 2013), available at <http://www.ftc.gov/speeches/wright/130912cpip.pdf> (“9/12/13 Wright Speech”).

<sup>24</sup> *Id.* at 24.

<sup>25</sup> 7/30/13 FTC Statement at 7 n.22.



large to deter fraudulent behavior given that patent holders are repeat players in standard-setting activities; (2) the first mover-advantage, which incentivizes patent holders who manufacture products using the standard to offer attractive licensing terms in order to promote the adoption of the product using the standard, increasing demand for its product rather than extracting high royalties; and (3) patent holders that have broad cross-licensing agreements with the SEP-owner may be protected from hold-up.<sup>31</sup>

### **Conclusion**

While a consensus appears to be emerging among the DOJ, the FTC, and the EC regarding the possible role of antitrust in restricting unilateral conduct associated with SEPs, it is not without strong opposition. Indeed, many contend that not only does contract law provide a superior alternative to antitrust law in this area, but that application of the antitrust laws may cause more harm than good.

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<sup>31</sup> 7/30/13 FTC Statement at 6.