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Applying Basic Antitrust Principles To SEPs

By **Yee Wah Chin**

IP AND COMPETITION LAW 360 -- The United States antitrust approach to intellectual property has evolved over time. The IP laws and the antitrust laws are now commonly viewed as complementary. Both value innovation, competition and consumer welfare, while IP rights are considered to be a form of personal property rights[1] that confer only the right to exclude others from the areas covered by the IP.[2] The same antitrust analysis applies to conduct involving IP as to conduct involving other forms of property, taking into account the specific characteristics of the particular property right.

There is no presumption that IP creates market power. The Patent Act makes that clear in the context of patent law.[3] The U.S. Supreme Court's decision in Illinois Tool Works Inc. v. Independent Ink Inc.[4] extended that principle to the antitrust context.

However, there have been significant calls recently for findings that infringement suits and licensing conduct by patent assertion entities labeled "patent trolls" and holders of standard-essential patents generally are monopolization or attempts to monopolize that violate Sherman Act §2, 15 U.S.C. §2. This article argues that the basic principles of keeping in mind history and context, and general antitrust principles, apply equally to SEPs and PAEs as to other economic phenomena.

History and Context

The context of the state of a country's economy affects its law, including competition law. Many of the early, key U.S. Supreme Court decisions interpreting the Sherman Act and laying the foundations of U.S. antitrust law involved huge cartels that affected substantial portions of the U.S. economy, such as the Standard Oil trust,[5] the railroad trust[6] and the meat packing cartel.[7] These are cases that may be unlikely to occur today in the U.S., substantially precisely because of this early law enforcement and because of changes in the U.S. economy in the last 120-plus years.[8]

Some of the evolution in the U.S. of the balance between fostering innovation and ensuring public access to innovation, and of the approach of antitrust law to IP, occurred perhaps as a result of the shift of the U.S. from being primarily an IP-taker in the 18th and 19th centuries, to significantly an IP-giver today. Some of this evolution can also be seen in other jurisdictions, perhaps including China.[9] These may be situations of where one stands depending on where one sits.

Antitrust Principles

The most common IP scenarios raising competition law concerns involve the unilateral actions of individual IP holders that may rise to monopolization and attempted monopolization.

The U.S. Supreme Court established in U.S. v. Grinnell Corp.[10] that monopolization requires two elements: first, that there is monopoly power in a relevant market, and second, that the power was acquired or maintained willfully as distinct from growing or developing as a result of a superior product, business acumen or historic accident. In NYNEX Corp. v. Discon,[11] the Supreme Court clarified that for the second element, simply having an anti-competitive motive, even if there was fraud that enabled a monopolist to raise prices, is insufficient to constitute a violation of the Sherman Act if there was no harm to the competitive process as a result.

Where there may be insufficient market power for monopolization, there may be attempted monopolization if there are: (1) the specific intent to destroy competition or achieve monopoly; (2) some exclusionary or anti-competitive conduct pursuant to that intent; and (3) a dangerous probability of success.[12]

Application to IP Generally

The U.S. antitrust enforcement agencies have consistently adhered to these basic antitrust principles for IP. This may be seen most recently in the 2017 update[13] to their 1995 "Antitrust Guidelines for Licensing of IP," and in the Federal Trade Commission's 2016 report on PAE activity.[14] The 2017 update to the IP guidelines reaffirm the agencies' enforcement approach with respect to IP licensing and do not expand the guidelines beyond licensing. The update is intended to conform the 1995 IP guidelines to changes in statutory and case law since 1995.[15]

In its PAE study[16] the FTC suggested steps that may address some concerns relating to PAEs, which are consistent with the principle stated in its October 2003 report "To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy," and reiterated in its March 2011 report, "The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition," that where concerns with how patent rights are being exercised are based on aspects of the patent system that allow such abuses, the remedy may be more appropriately in adjustments in the patent system, unless the abuses clearly have an adverse impact on competition.

Antitrust Approach to SEPs

One definition of standards is "a set of characteristics or qualities that describes features of a product, process, service, interface or material."[17] The process of standard-setting is that of identifying, developing and/or choosing such a set of characteristics or qualities. Standard-setting has beneficial effects, increasing consumer welfare and efficiency by establishing uniform approaches that enable interoperability and scale. However, the standards-development process, and standards themselves, may be abused and create anti-competitive effects.[18]

Many standards incorporate IP and require licenses of IP to be implemented. Under many standard development organization policies, a patent is “essential” to a standard if it is not possible as a technical matter to implement the standard without infringing the patent. There is a significant concern with SEP holders controlling and misusing market power that they obtained only because their IP is essential to implement a standard. There may be a failure to disclose SEPs during the standard development process, or a refusal to license SEPs, or refusal to license SEPs on fair, reasonable and nondiscriminatory terms. While all the cases brought by the U.S. agencies involving such allegations have been resolved by consent decree or ultimately dismissed,[19] and sometimes under the unfair practices prong of the FTC Act instead of the unfair methods of competition prong,[20] the competition law approach of the U.S. agencies to standards remains adherence to basic principles.

There are at least two levels at which the antitrust analysis should be made. First, there is the question of whether the particular standard has market power. If the standard is not dominant, does not have the power to control prices or exclude competition, then it would appear difficult to argue that any IP that reads on the standard, whether or not a SEP, has market power by virtue of reading on the standard.

Second, even if the standard involved has market power, there is the question as to whether any particular IP that reads on the standard has market power. In fact, where a SEP is subject to contractual commitments to license the SEPs under RAND terms, the SEP holder substantially limits the circumstances in which it may refuse to grant a license or obtain injunctive relief against infringement, and the ability of the patent holder to raise prices or exclude competition may be constrained.

There is debate in the U.S. as to whether the “nondiscriminatory” aspect of contractual RAND obligations would be best enforced as a contractual matter or whether competition law remedies are required.[21] The adjudicated cases in the U.S. relating to RAND terms have been contract law and patent infringement cases.[22]

Antitrust Approach to PAEs

PAEs hold patents, but do not practice them, and gain revenues primarily from enforcing the patents against other entities. The following three aspects of the FTC’s PAE study are striking:

1. The FTC took the time and effort to gather facts before taking or recommending any action.

2. The FTC recommended several changes in procedures for patent litigation, and is silent on any application of the antitrust laws.

3. The recommendations are apparently based on a view that while there appears to be a significant amount of nuisance infringement lawsuits brought by a significant

percentage of PAEs, those suits have little impact on competition, so that the appropriate remedy for such abuse of process should be adjustments to the process to make it more difficult to abuse.

Infringement Suits by SEP Holders and PAEs

Patent infringement suits may be used in an abusive manner by patent holders, including SEP holders and PAEs. Nonetheless, under the Noerr-Pennington doctrine,[23] lawsuits may be brought for anti-competitive purposes, unless the lawsuit was shown to be objectively baseless under the standard established in Professional Real Estate Investors v. Columbia Pictures Industries.[24] That case establishes a 2-pronged test for whether there is a sham litigation that is unprotected by the First Amendment:

1. Whether the lawsuit is objectively baseless; and

2. If it was objectively baseless, whether it was brought without caring whether it will be won, because the goal is to affect the competitor by forcing the competitor to defend the lawsuit.

Implementing a criterion of "objectively baseless" for lawsuits brought by a PAE, that is based on a reasonable litigant's expectation of success on the facts and law applicable to a particular case, would serve a dual purpose — discouraging the abuse of litigation and governmental process for anti-competitive purposes while preserving the proper use of patent infringement suits for enforcement of patent rights. Nonetheless, even if a lawsuit is a sham and brought for anti-competitive purposes, for the lawsuit to be an antitrust violation, the elements of monopolization or attempted monopolization must still be established.

Conclusion

Competition law is not a hammer to which all problems are nails. Sometimes, other remedies are more appropriate. The agencies' 2017 IP guidelines and the FTC's PAE study are two examples of the adherence to basic principles in antitrust, which should be applied to standards and PAEs.

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[1] U.S. Department of Justice and the Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property §2 (January 12, 2017).

[2] See, e.g., U.S. Department of Justice and the Federal Trade Commission, Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition at 2 (April 2007).

[3] "No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following:…unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned." 35 U.S.C. §271(d). See also, Windsurfing Intern. Inc. v. AMF, Inc., 782 F.2d 995 (Fed. Cir. 1986). In fact, a finding of patent misuse under U.S. law may be a greater burden than a finding of an antitrust violation. That is because if there is patent misuse, that patent may not be enforced at all until the misuse has been declared by a court to have been purged. E.g., Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917). In effect, the patent holder has lost the patent until the misuse is purged. In contrast, if there is an antitrust violation, the patent holder may owe the injured party treble damages, and be subject to an injunction requiring it to cease the violation. 15 U.S.C. §§ 15, 26. The patent holder still may otherwise fully practice and enforce the patent.

[4] 547 U.S. 28 (2006).

[5] Standard Oil Co. of New Jersey v. United States, 221 U.S. 1 (1911).

[6] Northern Securities Co. v. U.S., 193 U.S. 197 (1904).

[7] Swift & Co. v. U.S., 196 U.S. 375 (1905).

[8] While the U.S. agencies continue vigorously to prosecute cartels, some of which are immense durable multi-national arrangements, obtaining record-breaking fines, these latter-day combinations affect smaller parts of the U.S. economy than their predecessors.

[9] See, e.g., Hou Liyang, Qualcomm: How China has Invalidated Traditional Business Models on Standard Essential Patents, Journal of European Competition Law & Practice (2016) at 4 doi: 10.1093/jeclap/lpw064 http://jeclap.oxfordjournals.org/content/early/2016/08/16/jeclap.lpw064.full; Sokol, D. Daniel and Zheng, Wentong, FRAND (And Industrial Policy) in China (May 5, 2016) at 18. Cambridge Handbook of Technical Standardization Law, Vol. 1: Antitrust and Patents (Jorge L. Contreras, ed., 2017 (New York: Cambridge Univ. Press)) Forthcoming, University of Florida Levin College of Law Research Paper No. 16-35, https://ssrn.com/abstract=2776235.

[10] 384 U.S. 563, 570-71 (1966).

[11] 525 U.S. 128 (1998).

[12] Spectrum Sports, Inc. v. McQuillan, 506 U.S. 447, 456 (1993).

[13] U.S. DOJ/FTC Antitrust Guidelines for the Licensing of Intellectual Property, Jan. 12, 2017 (2017 IP Guidelines).

[14] Federal Trade Commission, Patent Assertion Entity Activity: An FTC Study, October 2016.

[15] Press Release, DOJ and FTC Seek Views on Proposed Update of the Antitrust Guidelines for Licensing of Intellectual Property, August 12, 2016.

[16] Discussed further, infra.

[17] Estaban Burrone, Standard, Intellectual Property Rights (IPR) and Standards-setting
Process, http://www.wipo.int/sme/en/documents/ip_standards_fulltext.html#P4_83

[18] See, e.g., Allied Tube and Conduit Corp. v. Indian Head, Inc., 486 U.S. 492 (1988), where the Supreme Court affirmed the §1 liability of a member of a fire safety association for influencing the association to adopt a biased safety code to benefit its own product and disfavor competing products.

[19] In re Dell Computer Corp., 121 F.T.C. 616 (1996); In re Rambus, Inc., No. 9302 (FTC
2009), http://www.ftc.gov/os/adjpro/d9302/090512orderdismisscomplaint.pdf; Motorola Mobility LLC and Google Inc., File No. 121 0120, Docket No. C-4410 (July 23, 2013) (Order and Decision); Robert Bosch GmbH, FTC File Number 121-0081, Docket No. C-4377 (Apr. 23, 2013) (Decision and Order).

[20] Id.

[21] See U.S. Dep't of Justice and U.S. Patent and Trademark Office, Policy Statement on Remedies for Standard–Essential Patents Subject to Voluntary F/RAND Commitments, 6 (Jan. 8, 2013); discussion at DOJ/FTC December 2012 workshop on PAE activity, http://www.ftc.gov/news-events/events-calendar/2012/12/patent-assertion-entity-activities-workshop.

[22] See Microsoft Corp. v. Motorola, Inc., 795 F.3d 1024 (9th Cir. 2015) (FRAND contract enforced, enforcement of German injunction enjoined, and FRAND royalties determined); In re Innovatio IP Ventures, LLC Patent Litig., 921 F. Supp. 2d 903 (N.D. Ill. 2013); Realtek Semiconductor Corp. v. LSI Corp., 946 F. Supp.2d 998 (N.D. Cal. 2013) (enforcing FRAND contract and granting preliminary injunction against enforcement of ITC exclusion order).

[23] Eastern Railroad Presidents Conference v. Noerr Motor Freight, 365 U.S.

127 (1961); United Mine Workers v. Pennington, 381 U.S. 657 (1965).

[24] 508 U.S. 49 (1993).