

CLIENT ALERT

Antitrust, Standard Development, and Essential Patent Licensing: The Antitrust Division Returns to Sound Enforcement Principles

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On November 10, 2017, Makan Delrahim, Assistant Attorney General for the Antitrust Division at the Department of Justice, delivered a [speech](#) announcing that DOJ would realign its policy and enforcement priorities in the areas of standard development and standard-essential patent licensing with the [antitrust and competition policy principles articulated in the joint DOJ/FTC 1995 IP Licensing Guidelines](#) and reaffirmed in [updated Guidelines issued in 2017](#).¹ The speech clarified the Antitrust Division's policy objectives in this important area and should be of interest to all firms who own or may need to license standard-essential patents, participate in standard development, or compete in markets built around collaborative technical standards.

Delrahim stated that antitrust enforcers have recently focused too narrowly on the risk that firms that have agreed to license essential patents on fair, reasonable, and nondiscriminatory (FRAND) terms will breach that commitment and demand licensing terms above FRAND levels (typically called patent hold-up). Delrahim explained that a narrow focus on hold-up has led enforcers to misuse antitrust law to police private contractual arrangements, undermining the important goals of the patent system in the process.

In addition, Delrahim believes this narrow lens has caused enforcers to ignore the greater risk that firms implementing standards will delay or refuse to pay for patented technology incorporated in their products (typically called patent hold-out). Indeed, as Delrahim explains, attention to the risk of patent hold-up has led to lax enforcement towards collusion among implementers, who may be using the standard development process to improperly depress royalty rates for essential patents.

Delrahim indicated that under his leadership, DOJ will not consider intervening in private contractual disputes between essential patent owners and implementers, but will instead scrutinize concerted action within standard-development organizations (SDOs) that restricts the legitimate exercise of patent rights. In that context, Delrahim urged SDOs "to be proactive in evaluating their own rules, both at the inception of the organization, and routinely thereafter. In fact, [SDOs] would be well advised to implement and maintain internal antitrust compliance programs and regularly assess whether their rules, or the application of those rules, are or may be anticompetitive."

Patent Hold-Out Poses a Risk to Innovation

SDOs provide a forum for engineers to collaborate on developing solutions to technical problems. These technical experts evaluate contributions and ultimately agree on a performance standard that is made available for the industry to use as a roadmap for developing interoperable products and services. Collaborative technical standards have been critically important to global growth in the information and communications technology (ICT) sectors, and will play an equally important role in fostering growth for the Internet of Things.

Most technical standards today include patented technologies. While patent policies vary across SDOs, most ask members to indicate whether they will agree to provide access to patents that are essential to implement the standard on FRAND terms. Over the past several years, antitrust agencies have focused on the risk that essential patent owners may breach their FRAND commitments and engage in patent hold-up. According to this application of hold-up theory, it is difficult and costly for implementers that have invested to develop or commercialize a standard-compliant product to design around the patented technology after the fact. As a result, an implementer who negotiates a license after developing or commercializing a product can be forced to pay inflated licensing rates that reflect its own past investment rather than the market value of the patented technology. This risk, so the theory goes, will deter widespread deployment of the standard.

Delrahim explains that a myopic focus on hold-up theory has exacerbated the more serious risk of patent hold-out. Standards are built on technical contributions from firms that invest heavily to develop solutions to enable the next generation of products and services. Firms begin making these investments many years before a standard is finalized and licenses can be negotiated, with the expectation that if they are successful, they will be rewarded through widespread licensing on FRAND terms. However, if implementers “hold-out,” by either dragging their feet on licensing negotiations or refusing to take a license at all, innovators cannot capture the value of their investments. Over time, hold-out is likely to depress the incentives for industry to invest in the fundamental technologies that drive ICT ecosystems.

Delrahim believes that from a competition policy perspective, the risk of hold-out is more problematic than the risk of hold-up. Implementers can avoid hold-up because information on licensing terms is likely available before they make most of their investments in developing and commercializing standard-complaint products. Implementers can thus protect themselves by seeking information on licensing terms or negotiating licenses before making all of their investment. On the other hand, innovators must make their basic R&D investments many years in advance of a final standard and have few good options for protecting themselves against hold-out in the future, even when their technology is a success.

Antitrust Division to Focus on Collusion

Aligning himself with the views of Acting Federal Trade Commission Chairman Maureen Ohlhausen,²² Delrahim argues that antitrust enforcers, motivated by fears of patent hold-up, have been *too aggressive* in policing *unilateral compliance* with FRAND obligations. Delrahim points to past FTC actions settling charges that an essential patent owner had engaged in unfair methods of competition by breaching a prior licensing commitment, either by demanding rates for acquired patents that exceeded a prior owner’s commitments, or by pursuing injunctive relief or an exclusion order against infringing products.³³ Like Ohlhausen, Delrahim understands that FRAND is a contractual commitment and breach allegations should be resolved by the courts under appropriate common law principles. He thus believes that “it is *not* the duty or proper role of antitrust law to referee what unilateral behavior is reasonable for patent holders in this context.”

But Delrahim goes a step further than Ohlhausen and argues that antitrust enforcement has been *too lax* in policing *concerted action* by implementers within SDOs—what Delrahim calls “collective hold-out” and is also known as “reverse hold-up.” Delrahim does not point to any particular conduct or SDO activity. His remarks, however, allude to controversial changes to the Institute of Electrical and Electronics Engineers (IEEE) patent policy with regard to FRAND licensing, which were reviewed favorably by DOJ in 2014. Delrahim expresses particular skepticism towards SDO rules that are “designed specifically to shift

bargaining leverage from IP creators to implementers, or vice versa.” According to Delrahim, a change in FRAND licensing policy that pegs the definition of a reasonable royalty to the smallest saleable patent practicing unit—a divisive aspect of IEEE’s 2014 policy adopted over vigorous objection from standard-essential patent owners—would fall in this suspect bucket. DOJ will also scrutinize SDO FRAND policies that limit a standard-essential patent owner’s right to seek an injunction—another controversial feature of IEEE’s 2014 policy.

More broadly, Delrahim objects to any interpretation of FRAND—whether imposed by an SDO or a court—that limits a patent owner’s right to seek an injunction or exclusion order. Delrahim believes that “[w]e should not transform commitments to license on FRAND terms into a compulsory licensing scheme. Indeed, we have strong policies against compulsory licensing, which effectively devalues intellectual property rights, including in most of our trade agreements, such as the TRIPS agreement of the WTO.” Delrahim takes issue with any interpretation of patent remedies that would limit injunctive relief for infringement of standard-essential patents subject to a FRAND commitment to “rare cases,” a position that calls into question the continuing force of DOJ’s 2013 Policy Statement on Remedies for Standard-Essential Patents Subject to a Voluntary Frand Commitment.⁴⁴

Implications

Delrahim’s speech marks a return to long-standing DOJ policy on the intersection of antitrust and intellectual property law, with the most straightforward implications for SDOs and firms that participate in the standard-development process, either through large SDOs or smaller private consortia. These organizations and their members should exercise added caution in discussing or pursuing FRAND licensing policies that may advantage implementers over patent owners, or vice versa. SDOs and other consortia are advised to review their antitrust compliance program and seek counsel before making meaningful changes to their participation rules or patent policies that may disadvantage one group of stakeholders.

DOJ’s now explicit embrace of the IP Guidelines principles for *all* IP, including essential patents, may also provide an advantage to essential patent owners that find themselves embroiled in antitrust litigation. Federal courts often look to agencies for guidance in formulating doctrine and sometimes cite to agency guidelines and policy statements in opinions. Delrahim’s speech provides a roadmap that essential patent owners can use to show that essential patents are treated like any other form of property under U.S. antitrust law.

It is important, however, to emphasize that antitrust authorities in many foreign jurisdictions, including [Europe](#), Canada, China, Korea, and Japan, have law or enforcement guidelines in place that impose additional obligations on standard-essential patent owners, particularly with regard to seeking an injunction for infringement of an essential patent. Foreign antitrust authorities have traditionally provided a far more receptive audience for implementers looking to use antitrust theories to gain leverage in a private licensing negotiation and likely will continue to do so. Thus DOJ’s policy realignment, at least in the short-term, does not materially reduce the antitrust risks that can be associated with high-stakes, global FRAND licensing negotiations.

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