Client Alert

The Antitrust Division Takes the New Madison Approach to Court in *u-blox v. InterDigital*

February 14, 2019

In late January, the U.S. Department of Justice's Antitrust Division submitted a statement providing its views on antitrust theories advanced by the plaintiff in *u-blox v. InterDigital*, a district court case involving the licensing of standard-essential patents in the wireless communications sector.

In a complaint filed on January 1, 2019, u-blox alleged that InterDigital had, among other things, violated the antitrust laws by refusing to abide by commitments it had made to provide access to its standard-essential patents on fair, reasonable, and nondiscriminatory (FRAND) terms. On the same day, u-blox also filed a motion for a temporary restraining order to block InterDigital from contacting or attempting to collect royalties from any u-blox customer. Later that month, the Antitrust Division filed a statement opposing any injunction based on a potential antitrust violation or any theory grounded in harm to the competitive process or consumer welfare. A few days later, the court denied u-blox's motion.

One of Assistant Attorney General Makan Delrahim's top priorities since taking charge of the Antitrust Division has been rebalancing the relationship between competition policy and intellectual property rights, particularly in the areas of standardization and essential patents. Consistent with its expanded amicus program, the Antitrust Division's recent action in the *u-blox* matter shows that it is prepared to move beyond policy guidance to shape the development of antitrust law and the application of competition-based principles more broadly by intervening directly in the early stages of private litigation.

The "New Madison" Approach to the Intersection of Antitrust and IP

AAG Delrahim has grounded Antitrust Division policy on the intersection of antitrust and intellectual property law in the views of James Madison, who he views as the motivating force behind the Copyright and Patent Clause of the U.S. Constitution. Though AAG Delrahim's "New Madison" approach applies broadly to the relationship between antitrust and IP, he has focused in particular on the assertion of rights to patents essential to implementing collaborative standards.

Collaborative technical standards, created by standards-development organizations (SDOs), have been critically important to global growth, particularly in the information and communications technology sectors (ICT). Many ICT sector standards include patented technologies. Because firms will need access to these patented technologies to implement the standard, SDOs commonly adopt patent policies to promote access after a standard is adopted. While these patent policies vary across SDOs, many ask members to indicate whether they will agree to provide access to essential patents on FRAND terms. Where members agree, these assurances create contractual commitments between the patent owner and the SDO. Implementers typically have enforceable rights as third-party beneficiaries.

In recent years, antitrust agencies have focused on the risk that, after a standard is adopted, essential patent owners may break those promises and charge unreasonable or discriminatory rates for access, often called "patent hold-up." In 2012 and 2013, the Federal Trade Commission entered into negotiated consent agreements with two companies, Bosch GmbH, and Google/Motorola Mobility respectively, settling charges that these companies had engaged in unfair methods of competition by breaching their FRAND obligations. In each case, the alleged anticompetitive conduct was based on a theory of patent hold-up.

Although the Antitrust Division has not brought any antitrust enforcement actions based on patent hold-up, in 2013, the DOJ and the Patent and Trademark Office jointly issued a "Policy Statement on Remedies for Standard-Essential Patents Subject to Voluntary F/RAND Commitments" which advanced the same hold-up theory. The policy statement encouraged courts and the International Trade Commission to account for the risk of patent hold-up before ordering an injunction or exclusion order as a remedy for infringement of a standard-essential patent subject to a FRAND assurance.

As previously reported, AAG Delrahim believes that the past discussions regarding the issue of patent hold-up have been one-sided and have ignored the potential for strategic behavior by implementers to avoid paying for IP, typically known as patent "hold-out." According to AAG Delrahim, any genuine analysis of the competitive effects of licensing behavior must account for the incentives of both patent owners and implementers to engage in gamesmanship. He has warned that placing too much emphasis on the interests of IP implementers threatens to undermine the incentives to invest in the development of next-generation technologies and thus puts the standards ecosystem at risk.

To restore what he believes is much-needed balance, AAG Delrahim has advised courts and regulators against using antitrust law "as a tool to police FRAND commitments." He has also pledged to scrutinize efforts by SDO members to adopt patent policies that "skew conditions for patented technologies' incorporation into a standard in favor of implementers." On December 7, 2018, the Antitrust Division formally withdrew from the 2013 policy statement, which though focusing on patent remedies, rested on the same hold-up theory that AAG Delrahim rejects as a basis for antitrust enforcement.

U-blox v. InterDigital

InterDigital is a technology company that develops wireless communications technologies and owns a portfolio of patents essential to implementing European Telecommunications Standards Institute (ETSI) 2G, 3G, and 4G cellular standards. InterDigital has agreed with ETSI that it will provide access to its essential patents on FRAND terms. U-blox manufactures cellular modules that provide wireless functionality. For many years, u-blox operated under a license to practice InterDigital's essential patents. In 2017, as its existing license was nearing expiration, u-blox sought to renew on more favorable terms, claiming the existing terms were not consistent with InterDigital's FRAND assurance. The parties agreed to extend the current license through the end of 2018 to continue negotiations, but failed to reach an agreement by that date.

On January 1, 2019, u-blox filed a lawsuit against InterDigital in the Southern District of California, claiming breach of contract and asking the court for a declaratory judgment setting a FRAND rate. The complaint also included an antitrust claim based on alleged patent hold-up. U-blox alleged that InterDigital deceived ETSI into incorporating its technology into its cellular standards by making false promises to provide access to its essential patents on FRAND terms. According to u-blox, InterDigital concealed its plans to engage in patent hold-up by pursuing unreasonable or discriminatory terms after the standards were adopted. U-blox also claimed that InterDigital has interfered with its customer relationships to bolster its hold-up strategy, moving for a temporary restraining order to block any future communications.

Implementers involved in licensing disputes with standard-essential patent owners will often include a so-called “false FRAND” antitrust claim in a complaint. This theory gained popularity after the Third Circuit overruled a lower court decision dismissing this kind of claim on the pleadings. *See Broadcom v. Qualcomm*, 501 F.3d 297 (3rd Cir. 2007). However, such claims rarely survive summary judgment. Few courts have found that the plaintiff met its burden to show that a patent owner made an intentionally false promise to an SDO or that the SDO would have selected an alternative technology at the time the standard was adopted, both of which are necessary elements of a false-FRAND antitrust claim. *See, e.g.*, *Rambus v. FTC*, 522 F.3d 456, 467 (D.C. Cir. 2008); *TCL Commc’ns Tech. Holdings v.Telefonaktiebolaget Lm Ericsson*, 2016 U.S. Dist. LEXIS 140566, *18 (C.D. Cal. Aug. 9, 2016). In addition, where the plaintiff has refused to pay for a license and the only costs flowing from the alleged breach are the costs of defending against the patent owner’s legitimate infringement claims, courts have held that the patent owner is immune from antitrust liability under the *Noerr-Pennington* doctrine. *TCL Commc’ns*, 2016 U.S. Dist. LEXIS 140566, at *13, *Apple, Inc. v. Motorola Mobility*, 886 F. Supp. 2d 1061, 1076 (W.D. Wis. 2012).

U-blox’s false-FRAND theory ran headlong into the Antitrust Division’s “New Madison” approach and the Division weighed in directly. During the partial federal government shutdown in January, the Antitrust Division filed a Notice of Intent to File a Statement of Interest of the United States of America. The Antitrust Division stated that “Plaintiffs’ Fourth Cause of Action, ‘antitrust monopolization in violation of Section 2 of the Sherman Act,’ does not properly sound in antitrust law and that injunctive relief granted on that basis would risk distorting licensing negotiations for standard-essential patents.” The Antitrust Division explained that due to the lapse in funding, it could not provide a full Statement of Interest unless ordered to do so by the court. It asked the court to delay its hearing on the TRO until funding was restored or to issue an order asking the United States to provide its views.

U-blox responded by limiting the basis for its TRO to its contract and declaratory judgment claims (though the antitrust claim remains in the complaint). On January 25, Congress restored government funding and the Antitrust Division filed a status report on its position four days later. While recognizing that u-blox was no longer relying on its antitrust claim to support a TRO, the Antitrust Division expressed concern that u-blox continued to rely on a competition-based rationale, if not an express antitrust claim. The Antitrust Division stated that it remained “concerned that u-blox seems to continue to advance a theory that the patent rights belonging to Defendants . . . are somehow curtailed by concerns for consumer welfare or allocative efficiency. Without naming precisely the legal prohibition it seeks to invoke, u-blox suggests InterDigital’s ‘attempts to collect royalties from u-blox’s customers’ is improper or illegitimate.” The Antitrust Division stated that it had no position on the legitimacy of alternative legal bases for its motion, but that it intends to file a full Statement of Interest as the relevant competition issues proceed in the case.

Two days later, the court held a hearing and denied u-blox's motion for a TRO (which it had converted to a motion for a preliminary injunction), finding that u-blox had not provided sufficient evidence to show that InterDigital had breached its FRAND agreement or taken any steps to interfere with u-blox's customer relationships.

Implications

The Antitrust Division's actions in *u-blox* show that it is committed to shaping the development of antitrust law and the application of competition policy principles by intervening directly in the early stages of private litigation. Parties involved in licensing disputes and others matters at the intersection of antitrust and IP should stay tuned to the developments in this case and consider whether engagement with the Antitrust Division is warranted as part of an overall litigation strategy.

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