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Client Alert

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Senators Urge DOJ to Develop Antitrust Guidance for Licensing of Standard Essential Patents

On Monday, October 21, 2019, U.S. Senators Thom Tillis (R-NC) and Christopher A. Coons (D-DE) sent a letter to the U.S. Department of Justice pushing it to provide greater clarity as to its antitrust enforcement policy on standard essential patents ("SEPs"). SEPs are patents necessary for certain technological standards set by standard setting organizations. One example of the impact of technological standards on our daily lives involve cell phones—without consensus and collaboration between manufacturers, 3G, 4G, and now 5G, mobile networks would not be feasible. That said, SEPs can give rise to antitrust risks. For example, firms holding patents integrated into technological standards can wield significant leverage over their potential competitors by refusing to give access to the patents necessary to compete. Such conduct may constitute unlawful monopolization in violation of Section 2 of the Sherman Act and other SEP licensing practices may also violate Section 1 of the Sherman Act as anticompetitive agreements.

The U.S. antitrust agencies have expressed differing views as to SEPs. The FTC and DOJ have adopted opposing positions at times, and there have even been internal inconsistencies within the agencies. Makan Delrahim—current head of DOJ's Antitrust Division—has been particularly vocal on the topic, expressing caution against overaggressive antitrust enforcement against SEP holders and highlighting the need to encourage innovation by protecting intellectual property rights. On the other hand, the FTC has been aggressive in its pursuit of enforcement actions against alleged SEP abuses, exemplified by its recent successful litigation involving allegations that Qualcomm conditioned the sale of its modem chips to cell phone manufacturers upon the manufacturers' agreements to license a patent portfolio that included SEPs. Although the decision is being appealed, the U.S. District Court for the Northern District of California sided with the FTC, holding that Qualcomm violated Sections 1 and 2 of the Sherman Act, as well as Section 5 of the FTC Act. *Federal Trade Comm'n v. Qualcomm Inc.*, No. 17-cv-220, 2019 WL 2206013 (N.D. Cal. 2019).

This week's letter from Senators Tillis and Coons addresses a specific issue associated with SEPs, namely the licensing of SEPs on fair, reasonable, and nondiscriminatory ("FRAND") terms. SEPs become critical once they are incorporated into a technological standard, and FRAND terms provide assurance the prospective licensees will have access to those patents. SEP holders usually commit to licensing on FRAND terms as part of their collaboration in the standard-setting process. FRAND terms may thus become an antitrust issue (as well as a breach of contract issue) when SEP holders refuse to license their patents to a competitor or charge exorbitantly high fees for licenses. In their letter, the Senators write: "stakeholders have expressed concerns regarding a growing divide between the Department, the Federal Trade Commission, and the USPTO about the role of antitrust laws should play in addressing SEPs and FRAND commitments." The letter encourages DOJ to work with the USPTO to develop a revised policy statement regarding SEP licensing.

The request for greater clarity stems, in large part, to a recent shift in the DOJ's position as to FRAND issues. In 2013, the DOJ and the U.S. Patent & Trademark Office ("USPTO") issued joint guidance entitled "Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments." In it, the DOJ and USPTO stated that a patent holder's commitment to FRAND terms may impact its right to seek to exclude imports of infringing products through the use of Section 337 petitions to the U.S. International Trade Commission, or injunctive relief through the federal courts. However, Makan Delrahim formally withdrew the DOJ's assent to the joint policy statement during a December 2018 speech, stating that the agency is "committed to ensuring that patent holders maintain their full constitutional right to seek an injunction against infringement." In the same speech, Delrahim stated that the DOJ would work with the USPTO to prepare new joint guidance. While that guidance has yet to be published, DOJ leadership has continued to express strong views on FRAND commitments that may be viewed as favoring patent holders. In a public statement this summer, Delrahim stated that contract law, not the antitrust laws, should govern disputes over whether licenses are issued on FRAND terms, stating: "there is no duty under U.S. antitrust law for a holder of an intellectual property right to license on FRAND terms, even having committed to do so."

It appears that individual agency leaders can exert significant influence in this yet unsettled area of the antitrust and patent laws. The antitrust risks associated with SEPs and licensing practices will likely depend largely upon the continuing swings in policy. Thus, it will be critical for any SEP holder, or prospective competitor of SEP holders, to closely follow these developments in order to protect their interests.

REFERENCES

The U.S. Department of Justice and U.S. Patent and Trademark Office's "Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments" (Jan. 8, 2013) is available here.

Assistant Attorney General Makan Delrahim's Remarks at the 19th Annual Berkeley-Stanford Advanced Patent Law Institute (Dec. 7, 2018) is available here.

Assistant Attorney General Makan Delrahim's Remarks at the Ogranisation for Economic Co-Operation and Development (June 6, 2019) is available here.

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