IP/Antitrust Policy Changes are Afoot in the Biden Administration's DOJ

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Print Art

October 27, 2021

"Most antitrust practitioners expected the pendulum to swing back from the last Administration on issues of antitrust and IP, and Wilder's speech serves as a powerful warning that changes are again afoot."

The intersection of intellectual property (IP) and antitrust law is again a hot debate after a recent speech by the U.S. Department of Justice Antitrust Division's ("DOJ" or "Division") Economics Director of Enforcement, Jeffrey Wilder, titled *Leveling the Playing Field in the Standards Ecosystem: Principles for a Balanced Antitrust Enforcement Approach to Standards-Essential Patents*. Before we dive in on the key takeaways from the speech, and our thoughts on potential ramifications, it bears briefly mentioning how we got here.

When the American Bar Association's Section of Antitrust Law submitted its 2021 Presidential Transition Taskforce Report to the Biden Administration, it called for additional guidance on licensing practices and obligations associated with standard essential patents (SEPs). Since then, President Biden issued an Executive Order on Promoting Competition in the American Economy (EO), in which he encouraged the Attorney General and the Secretary of Commerce to consider reevaluating their positions on how IP rights could be used to harm competition. Specifically, the EO questioned whether the 2019 Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments should be revised. When the Division issued the 2019 Remedies Statement and withdrew the prior 2013 Remedies Statement, it shifted policy to a more IP-friendly approach, explaining that the 2013 Statement had been misinterpreted in a number of ways that could harm incentives to invest in technology and could distort negotiations over fair, reasonable and non-discriminatory (FRAND) licensing terms. As a result, the 2019 Remedies Statement made clear that there would be no special competition-related rules for infringement remedies with respect to SEPs, and it addressed *both* patent hold-up and hold-out as possibilities for distorting FRAND negotiations.

Wilder's recent speech walks back some of these 2019 Remedies Statement positions, and signals that the prior Administration's IP-friendly approach may be a thing of the past. Wilder asked us to "stay tuned," adding that the Division and Secretary of Commerce had already begun review of the 2019 Remedies Statement. From Wilder's speech, three potential shifts stand out:

1. Supra-FRAND rates or terms may become evidence of anticompetitive "deception."

Wilder's speech suggests that the Division may be willing to claim anticompetitive "deception" of the standards development organization (SDO) based on evidence that an SEP holder has failed to negotiate a FRAND license in good faith. In signaling this policy shift, however, the speech fails to grapple with some recent, and significant, case law to the contrary. To be sure, Wilder cautiously embraces the *Broadcom v. Qualcomm* and *Rambus v. FTC* decisions. He acknowledges that *Broadcom* and *Rambus* require, for an antitrust violation to accrue, deceptive conduct *before* the standard is set as well as a core showing that such deception actually impacted competition for inclusion in the standard. So even under *Broadcom* and *Rambus*, mere ex post disagreement over FRAND licensing terms or royalty rates would not suffice to establish an antitrust violation. But by foreshadowing the potential antitrust consequences of breaching a FRAND commitment, Wilder suggests that such a breach could imply ex ante deception.

In so doing, Wilder does not address more recent decisions moving in the opposite direction of this new stance. Specifically, Wilder fails to grapple with the Ninth Circuit's ruling in *FTC v. Qualcomm*, which held that while Qualcomm may have had "sharp elbows" in its FRAND negotiations, demanding high royalty rates (even at monopoly prices) is the type of competitive tactic protected by patent law and it cannot alone be the basis of an antitrust claim. Similarly, *HTC v. Ericsson* out of the Eastern District of Texas (and now affirmed by the Fifth Circuit), and *Continental v. Avanci* out of the Northern District of Texas, both held that the requirements of a FRAND obligation are determined by contract and patent law rather than antitrust. In the latter case, the Trump Administration's DOJ filed a Statement of Interest emphasizing that breaching a FRAND commitment did not itself have an exclusionary effect, a disagreement over the obligations of the FRAND commitment was an insufficient factual basis to allege deception, and imposing antitrust liability for FRAND violations would result in overdeterrence of innovative and procompetitive activity.

Wilder's suggestion that SEP holders may run afoul of the antitrust laws when they spurn a would-be licensee in FRAND negotiations would be an about-face for the Division, and it has the potential to deter standards participation and to increase the number of FRAND licensing disputes raising antitrust claims.

2. The Division may provide guidance on what constitutes good faith negotiations.

Wilder casts both the 2013 and the 2019 Remedies Statements on SEPs as neutral, and reaffirms the DOJ's commitment to policies that encourage good faith negotiations, rather than tilt the balance of negotiations toward patent holders or implementers. Wilder also promises "clearer guidance on what good-faith negotiation looks like and how bad-faith conduct can hinder competition." This signals a new willingness for the Division to play umpire, calling balls and strikes as to what constitutes an "unwilling licensee." If so, SEP holders may have an opportunity to help the Division understand real-world examples of how negotiations fall apart with unwilling licensees, and vice versa for implementers. To date, U.S. case law has had relatively few opportunities to identify impermissible hold-up or hold-out – though the U.S. Court of Appeals for the Federal Circuit did articulate two base line principles for conduct suggesting an implementer may be an unwilling licensee: (1) unilateral refusal of a FRAND royalty, and (2) unreasonable delay in negotiations. *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1332 (Fed. Cir. 2014).

Wilder's speech also seems to indicate that the Division will put its thumb on the scale in favor of SDO's adopting certain intellectual property rights (IPR) policies that prescribe what licensing negotiations should look like. But the devil will certainly be in the details. Wilder does not grapple with how a top-down prescription could discourage contributions to standards or discourage innovation in the way that SDOs or other organizations minimize transaction costs. Nor does he indicate what sort of facts could signal to the Division that an IPR policy has gone too far and actually constitutes monopsonistic price coordination on the part of licensees. If policy really is shifting back to prior approaches, the DOJ's 2013 business review letter to IEEE indicating a safe harbor for its IPR prescriptions could be the starting point for future analysis.

3. The Division may be moving closer to a European approach.

With the Division taking a step back from its prior position that unilateral breach of a FRAND commitment is not a matter for antitrust law, and stepping up to provide "clearer guidance on what good-faith negotiation looks like," the landscape for SEP holders in the United States may start to look more like that in Europe and the UK.

In contrast to the United States, courts in Europe and the UK have offered a more definite playbook for FRAND licensing and the negotiation process, giving more examples and commentary around good faith negotiations and the availability of injunctive relief. For instance, a licensor that fails to follow the proper negotiation process—providing notice of infringement and explaining why license conditions are FRAND—risks abusing its dominant market position and losing its right to injunctive relief. *Sisvel Int'l S.A., v. Haier Deutschland GmbH*, KZR 36/17, ¶¶69-72 (May 5, 2020). (hereinafter "*Sisvel v. Haier*"). And a licensee may absolve a licensor of failing to meet its duties, and open the path to injunctive relief, by being unwilling to take a license on FRAND terms or unduly delaying negotiations. Whether the proper negotiation process was followed may correlate with substantive licensing terms offered – in the UK, for example, a "willing licensee" is "one willing to take a FRAND licence on whatever terms are in fact FRAND." *Unwired Planet Intl. Ltd v Huawei Tech. Co Ltd et al.*, [2017] EWHC 711 (Pat), ¶708 (Apr. 5 2017). And although some European courts have avoided the burden of determining FRAND license terms, the UK has asserted jurisdiction to set global FRAND rates, offering an alternative to determination by a jury in the U.S. *TCL*

Commc'n Tech. Holdings Ltd. v. Telefonaktiebolaget LM Ericsson, 943 F.3d 1360, 1375 (Fed. Cir. 2019), cert. denied, 141 S. Ct. 239, 208 L. Ed. 2d 17 (2020).

European courts have also recognized that the negotiation process is context-specific, both as to terms offered and the process for negotiating those terms, and accumulated decisions addressing specific issues in FRAND licensing negotiations, including determining a FRAND rate, making non-FRAND offers, substantiating infringement claims, licensing portfolios globally, requiring confidentiality and non-disclosure agreements, considering comparable licenses,

licensing downstream users, selective licensing, and perhaps most significantly, seeking injunctive relief. As a practical matter, bilateral license negotiations often take place in the shadow of European law, which presents additional insight on the contours of good faith negotiation, license terms, and available remedies.

A Powerful Warning

Most antitrust practitioners expected the pendulum to swing back from the last Administration on issues of antitrust and IP, and Wilder's speech serves as a powerful warning that changes are again afoot. AAG-nominee Jonathan Kanter was relatively tight-lipped about his plans in his recent confirmation hearing, but he did echo Wilder in a response to Senator Lee, suggesting a place for antitrust enforcement in resolving disagreements relating to SEPs: "Effective antitrust enforcement should reflect a balanced approach that considers the facts of any given dispute." The specifics of the promised "balanced approach" remain to be seen. But the implications for innovative activity–including participation in standards development and FRAND licensing–are potentially enormous. In the meantime, both licensors and licensees should consider how substantial differences between the United States, Europe, and the UK impact the FRAND negotiation process, available remedies, and the appropriate forum for seeking those remedies.

Tune in to IPWatchdog's Patent Masters virtual symposium, Standard Essential Patents 2021, from November 8-11, for more on SEPs.

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Image ID: 45057311

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