

# Intellectual Property & Antitrust

*Contributing editor*  
**Peter J Levitas**



2018

GETTING THE  
DEAL THROUGH

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# Intellectual Property & Antitrust 2018

*Contributing editor*

**Peter J Levitas**

**Arnold & Porter Kaye Scholer LLP**

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# Global overview

Peter J Levitas and Matthew A Tabas

Arnold & Porter Kaye Scholer LLP

## Standard essential patents and FRAND licensing

Once again this year, there has been a great deal of activity at the intersection of antitrust and intellectual property law. As has been the case for several years, much of that activity has revolved around industry standards that allow for the interoperability of hi-tech products. Competition authorities have long expressed concern about potential risks associated with the creation of standards and associated standard essential patents (SEPs), including the potential for ‘patent hold-up’. That is, the prospect of an SEP-holder successfully demanding higher royalty rates or other more favourable terms after a standard is adopted than it could have demanded credibly before a standard is adopted. Standard setting organisations (SSOs) routinely attempt to mitigate such risks by requiring that SEPs be licensed under fair, reasonable and non-discriminatory (FRAND) terms. However, the exact meaning of FRAND remains an open issue, and in recent years, courts and competition authorities worldwide have wrestled with the issue of whether and under what circumstances the holder of a FRAND-encumbered patent may seek an injunction against potential licensees. Case law and regulatory guidance have continued to develop on this latter issue, as described below (and in previous editions of *Getting the Deal Through*). In addition, antitrust authorities and private litigants have increased their focus on specific licensing practices of SEP-holders.

## United States

In one of its last actions under the Obama administration, the Federal Trade Commission (FTC) filed a complaint against Qualcomm Inc in the Northern District of California alleging that Qualcomm engaged in anticompetitive licensing tactics to maintain its monopoly in the sale of baseband processors for mobile handsets. The complaint alleges that Qualcomm engaged in a course of conduct in violation of section 1 of the Sherman Act, section 2 of the Sherman Act and the ‘unfair methods of competition’ prong of section 5 of the FTC Act (a ‘stand-alone’ section 5 violation). The complaint revolves around Qualcomm’s ‘no licence, no chips’ policy, under which handset manufacturers cannot access Qualcomm’s chipsets without accepting licences to Qualcomm’s SEPs on allegedly non-FRAND terms, and Qualcomm’s refusal to license its SEPs to baseband processor competitors altogether. The complaint also includes allegations that Qualcomm engaged in anticompetitive exclusive dealing with Apple.

The complaint is somewhat controversial. The now-acting chair of the FTC, Maureen K Ohlhausen, issued a dissenting statement asserting that the ‘enforcement action [was] based on a flawed legal theory (including a stand-alone section 5 count) that lacks economic and evidentiary support, that was brought on the eve of a new presidential administration, and that, by its mere issuance, will undermine US intellectual property rights in Asia and worldwide’.

Qualcomm moved to dismiss the FTC’s complaint in early April, but its motion was denied. The parties are now engaged in discovery for the ongoing litigation.

In addition to the FTC’s action, there are a number of private antitrust litigations brought by consumers and customers (including Apple Inc) in the US and in other jurisdictions asserting similar competition law claims against Qualcomm.

Qualcomm has responded to the various attacks on its licensing practices by filing its own legal actions. It recently filed a patent infringement action against Apple with the US International Trade

Commission, in US federal district court in California and in German courts. Qualcomm has also sued Apple’s contract manufacturer in US federal district court in California.

## Korea

Qualcomm’s licensing practices have also been subject to scrutiny by the Korea Fair Trade Commission (KFTC). In December 2016, the KFTC found that Qualcomm’s refusal to license SEPs to its competitors and what the KFTC deemed to be coercion of customers into unfair licensing agreements was a violation of Qualcomm’s FRAND commitments and an abuse of market dominance. The KFTC fined Qualcomm over US\$908.7 million and required certain remedial measures. In February 2017, Qualcomm appealed the KFTC’s decision to the Seoul High Court.

## European Union

In April 2017, the European Commission announced an effort to provide guidance regarding ‘standard essential patents for a European digitalised economy’. Specifically, the initiative will develop:

- (i) *best practice recommendations to increase transparency on SEP exposure, including to SSOs to improve value and accessibility of SEP databases and to bring more precision and rigour into the essentiality declaration system in particular for critical standards;*
- (ii) *guidance on the boundaries of FRAND and core valuation principles; and*
- (iii) *guidance complementing existing jurisprudence on enforcement in areas such as mutual obligations in licensing negotiations before recourse to injunctive relief, portfolio licensing and the role of alternative dispute resolution mechanisms.*

However, no timeline has been announced for the development of this guidance.

In the meantime, the UK’s High Court of Justice recently issued its first opinion regarding FRAND issues in *Unwired Planet International Ltd v Huawei Technologies Co Ltd*. The Court found that Huawei had infringed on Unwired Planet’s SEPs and that Unwired Planet was entitled to seek an injunction even though neither Unwired Planet’s offer to license those patents, nor Huawei’s counteroffer, was on FRAND terms. The Court set a FRAND rate and held that if Huawei did not accept the rate, it would face an injunction barring UK sales of infringing products. In June 2017, after refusing to accept the Court’s FRAND rate determination, Huawei was enjoined from importing its infringing products. This ruling is somewhat at odds with what had been an emerging worldwide consensus that SEP holders may not seek injunctions against a ‘willing licensee’ and related holdings that a licensee should not be found ‘unwilling’ if the SEP holder has not made a FRAND offer.

## China

The law in China may also be diverging from the previously established international consensus regarding when injunctions are available to holders of FRAND-encumbered SEPs. In the 2013 *Huawei Technologies Co Ltd v InterDigital Corporation* decision, a Chinese court found the SEP-holder had abused its dominance by seeking an injunction against a willing licensee. However, China’s courts recently issued formal

guidance and a decision that may signal a potential change in the analytic structure used in China for assessing whether an SEP-holder is entitled to seek injunctive relief.

In April 2017, the Beijing High People's Court issued 'Guidelines for Determining Patent Infringement'. These guidelines analyse various scenarios involving requests by SEP-holders for injunctive relief against alleged infringers. In one scenario, the guidelines hold that if the SEP-holder breaches its FRAND commitment and is 'at fault', then the injunction should not be granted. There is no suggestion, however, that merely seeking an injunction against a willing licensee would be considered a violation of the SEP-holder's FRAND commitment.

Similarly, in its March 2017 decision in *Xi'an Xi Dian Jie Tong Radio Network Co (IWNCOMM) v Mobile Communication (China) Co Ltd*, the Beijing Intellectual Property Court determined that injunctive relief was available to a SEP-holder if the potential licensee is at fault for the failure to agree on licensing terms, or if, after balancing the interests of both parties, the court finds that an injunction should be granted. The Court's analysis appears to assess injunctive relief in the SEP context under the same standards as in an ordinary patent infringement case, and does not indicate that the FRAND commitment itself creates any barrier to seeking an injunction. The Court held that IWNCOMM was entitled to injunctive relief.

#### Other issues of note

The US competition authorities issued two guidance documents regarding intellectual property issues.

First, on 12 January 2017, the US Department of Justice and the FTC issued revised Antitrust Guidelines for the Licensing of Intellectual Property. The revised guidelines, which replace the authorities' 1995 guidelines, are viewed largely as a relatively minor update, most

notable for what they do not address: the antitrust implications of SEPs or any guidance on FRAND issues.

Second, in October 2016, the FTC released its Patent Assertion Entity study, which included a detailed analysis on the effects of patent assertion entities' (PAEs) licensing and litigation activities in the wireless chipset sector. The study found a range of PAEs with different business models and market effects, but focused on recommendations to address litigation activities by PAEs. The study encouraged reforms to limit the ability of certain types of PAEs to utilise 'nuisance' lawsuits against accused infringers.

In addition, the Supreme Court decided an important case regarding patent exhaustion. In *Impression Products Inc v Lexmark International Inc*, the Court held that a patentee's decision to sell a product, either domestically or abroad, automatically 'exhausts its patent rights in that item, regardless of any post-sale restrictions the patentee purports to impose'. The Court acknowledged that the patentee might be able to restrict use of the product via contract, but emphasised that such restrictions could not be based on the patent right, which is exhausted by the sale. The opinion does not affect the established right of a patentee to offer licences with a limited field of use.

#### Conclusion

The issues found at the intersection of antitrust law and intellectual property rights continue to be actively debated by competition authorities and courts worldwide. SEP and FRAND issues continue to dominate the landscape and we can expect to see these issues actively litigated for the next few years. The 13 chapters of *Getting the Deal Through - Intellectual Property & Antitrust 2018* summarise recent developments in law and policy affecting these and other areas from jurisdictions around the world.

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