

Intellectual Property & Antitrust

Contributing editor
Peter J Levitas



2019

GETTING THE
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Intellectual Property & Antitrust 2019

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Arnold & Porter Kaye Scholer LLP

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Preface

Intellectual Property & Antitrust 2019

Thirteenth edition

Getting the Deal Through is delighted to publish the thirteenth edition of *Intellectual Property & Antitrust*, which is available in print, as an e-book, and online at www.gettingthedealthrough.com.

Getting the Deal Through provides international expert analysis in key areas of law, practice and regulation for corporate counsel, cross-border legal practitioners, and company directors and officers.

Throughout this edition, and following the unique **Getting the Deal Through** format, the same key questions are answered by leading practitioners in each of the jurisdictions featured.

Getting the Deal Through titles are published annually in print. Please ensure you are referring to the latest edition or to the online version at www.gettingthedealthrough.com.

Every effort has been made to cover all matters of concern to readers. However, specific legal advice should always be sought from experienced local advisers.

Getting the Deal Through gratefully acknowledges the efforts of all the contributors to this volume, who were chosen for their recognised expertise. We also extend special thanks to the contributing editors, Peter J Levitas of Arnold & Porter Kaye Scholer LLP, for his continued assistance with this volume.

GETTING THE 
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London
November 2018

Global overview

Peter J Levitas and Matthew A Tabas

Arnold & Porter Kaye Scholer LLP

Standard essential patents and FRAND licensing

Once again this year, much of the activity at the intersection of antitrust and intellectual property law has revolved around the issue of industry standards. Competition authorities recognise that such standards frequently create efficiencies, but remain concerned about potential risks. There is particular focus on standard essential patents (SEPs) and 'patent hold-up' (ie, 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 SEP-holders agree to license those patents on fair, reasonable and non-discriminatory (FRAND) terms. Failure to meet that obligation has sometimes been deemed a violation of antitrust laws. How to define FRAND and how to assess whether particular licensing terms comply with a FRAND obligation remain a focus of competition authorities and courts around the world.

United States

Starting in November 2017, the leadership of the US Department of Justice's Antitrust Division (DOJ) made a series of statements criticising prior DOJ policy regarding FRAND. Assistant Attorney General Makan Delrahim has now staked out the position that 'antitrust law should not be used as a tool to police FRAND commitments that patent-holders unilaterally make to standard setting organisations'. Further, AAG Delrahim has emphasised that he believes that the standard-setting process has inappropriately shifted bargaining leverage from innovators of SEP technology to implementers of that technology and increased the risk of 'patent hold-out', where an implementer refuses to agree to reasonable licence terms demanded by an SEP-holder. Accordingly, AAG Delrahim has announced his intention to focus DOJ antitrust enforcement less on potential 'patent hold-up' and more on 'patent hold-out' by SEP licensees.

Although the Federal Trade Commission's (FTC) leadership have stated publicly that they largely agree with the DOJ's position, the FTC is still concerned with patent hold-up and it continues to litigate its challenge to Qualcomm Inc's SEP-licensing practices. The FTC alleges that Qualcomm has attempted illegally to maintain its monopoly in the sale of baseband processors for mobile handsets by refusing to license its handsets on FRAND terms to all market participants. (On 26 June 2017, the FTC complaint survived a motion to dismiss in US federal court and discovery is now ongoing. There are also a number of private antitrust litigations brought by consumers and customers in the US and in other jurisdictions asserting similar competition law claims against Qualcomm, and Qualcomm has responded with a variety of counter-suits.) It remains to be seen what impact this policy difference between the FTC and DOJ will have on enforcement decisions and business conduct going forward.

A federal district court in the Central District of California issued a decision in December 2017 that provided guidance on the narrower question of how to assess a 'fair and reasonable' licence rate under FRAND in *TCL Communication Technology Holdings, Ltd v Telefonaktiebolaget LM Ericsson and Ericsson Inc*. In this case, TCL claimed that Ericsson, a manufacturer and distributor of cellular handsets, failed to offer FRAND terms for its 2G, 3G and 4G cellular technology SEPs. The court agreed and held that the parties should use a 'top-down' approach to value the SEPs. This approach requires evaluating the total value of a standard,

calculating the aggregate royalty that a licensee should pay to implement the entire standard, and then estimating the share of that total associated with the particular SEPs at issue. This top-down approach is one of several methods that has been used by other US courts to determine a FRAND rate. Ericsson has appealed this decision to the Court of Appeals for the Federal Circuit, and that appeal may provide additional clarity on the appropriate method of determining FRAND rates.

In addition, the US FTC has begun a series of public hearings that will extend over several months, addressing evolving business practices, new technologies and international developments that may require adjustment of the FTC's enforcement approach. Among other topics, the FTC hearings are expected to address the role of intellectual property and competition policy in promoting innovation.

European Union

In November 2017, the European Commission (EC) published its own recommendations regarding SEPs, entitled *Setting out the EU approach to Standard Essential Patents*, which were approved by the Council of the European Union in March 2018. The recommendations offer guidance for SEP-holders, implementers and SSOs on how to operate efficiently in the FRAND environment, but they do not take a position on whether conduct that is inconsistent with the recommendations will violate the competition laws.

However, the EC offered several guideposts for determining whether a licensing rate meets the 'fair and reasonable' prong of FRAND. The value of the SEP licence should (i) be clearly related to the economic value of the patented technology; (ii) take into account the present value added of the patented technology; (iii) be great enough to encourage SEP-holders to contribute their best technology to the standard; and (iv) be assessed in the context of the overall added value of the technology (so as to avoid royalty stacking). The EC also indicated agreement with the widely held view that the non-discrimination prong of FRAND applies to licensing of implementers that are 'similarly situated', and offered its view that inconsistency in licensing regimes across countries would create inefficiency for products traded globally. Finally, the EC suggested that patent pools or other licensing platforms might be superior to FRAND agreements because they often provide 'better scrutiny on essentiality, more clarity on aggregate licensing fees and one-stop-shop solutions'. The EC also provided guidance on how SEP-holders and licensees should conduct themselves in negotiations in light of EU precedent regarding the availability of injunctions for SEP holders. The EC guidance suggests that both parties make concrete, detailed offers and utilise alternative dispute resolution techniques where necessary to reach agreement on licensing terms.

China

In the past two years, China has diverged from the previously established international consensus that SEP-holders cannot usually obtain injunctive relief against a willing licensee. The January 2018 opinion from the Intermediate People's Court of Shenzhen in *Huawei Technologies Co Ltd v Samsung Electronics Co Ltd* provides another example of a Chinese court enjoining a willing licensee's use of SEPs when the parties could not reach an agreement on the terms of a licence. However, that court not only enjoined Samsung from using Huawei's technology in China but also enjoined Samsung from using the technology worldwide. In issuing the worldwide injunction, the court indicated that it wanted to

protect Chinese intellectual property rights both in China and abroad. Samsung has appealed the court's decision in China and successfully challenged Huawei's ability to enforce the injunction in a US court that is currently hearing a similar challenge by Huawei to Samsung's use of the SEPs.

Japan

On 5 June 2018, Japan's Patent Office issued a Guide to Licensing Negotiations involving Standard Essential Patents, outlining the key issues SEP-holders and implementers should consider when negotiating over SEPs. The Guide states that both the negotiation process itself and the terms of the resulting licence must be FRAND-compliant, a position consistent with Japan Fair Trade Commission precedent and case law from other jurisdictions. The Guide describes a 'good faith' negotiation process based on the framework utilised in the EU case *Huawei Technologies Co Ltd v ZTE Corp* (discussed in *Getting the Deal Through - Intellectual Property & Antitrust 2016*). The Japan Patent Office does not take a position on whether an SEP-holder may seek an injunction against a willing licensee. The Guide acknowledges, however, the international precedent suggesting that an SEP-holder may seek an injunction against an implementer only if the SEP-holder had negotiated in good faith, the parties failed to reach agreement on terms and the licensee was guilty of bad faith. The Guide also provides a discussion of various potential royalty calculation methods, although it does not provide specific guidance regarding which might be preferred or required under Japanese law.

Korea

The Korea Fair Trade Commission (KFTC) continues its litigation against Qualcomm's licensing practices. The KFTC had previously fined Qualcomm more than US\$908.7 million over its refusal to license SEPs to its competitors and what the KFTC deemed to be coercion of customers into unfair licensing agreements. In February 2017, Qualcomm appealed the merits of the KFTC's decision to the Seoul High Court and also sought a stay of the remedial order. In September 2017, the Seoul High Court rejected Qualcomm's request for a stay and in November 2017, the Supreme Court of South Korea affirmed that decision. The merits of the KFTC's remedial order are still being considered by the Seoul High Court.

Taiwan

The Taiwan Fair Trade Commission (TFTC) has now settled its litigation with Qualcomm. It had previously fined Qualcomm approximately US\$775 million for violating Taiwan's Fair Trade Act with its refusal to license SEPs to its competitors. Qualcomm appealed that decision to the Taiwan Intellectual Property Court, and in August 2018, the parties agreed to a settlement under which the TFTC revoked its decision and Qualcomm agreed to drop its appeal, pay a fine of approximately US\$93 million, invest approximately US\$700 million in Taiwan over the next five years, and agree to remedial terms to ensure 'good-faith negotiations for the benefit of the licensees and SEP owners' going forward.

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. This latest edition of *Getting the Deal Through - Intellectual Property & Antitrust 2019* summarises recent developments in law and policy affecting these and other areas from jurisdictions around the world.

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