

# Intellectual Property & Technology Law Journal

Edited by the Technology and Proprietary Rights Group of Weil, Gotshal & Manges LLP

VOLUME 31 • NUMBER 4 • APRIL 2019

## DOJ Changing Its Antitrust Approach to FRAND and SEPs

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In November 2017, Assistant Attorney General (AAG) Makan Delrahim reignited a debate about antitrust enforcement in the context of standard-setting organizations (SSOs),<sup>1</sup> standard essential patents (SEPs), and agreements to price SEPs on fair, reasonable, and non-discriminatory (FRAND)<sup>2</sup> terms. Prior to the Trump administration, the Department of Justice (DOJ) and Federal Trade Commission (FTC) had taken similar approaches. Both agencies expressed concerns about the competitive implications of patent holders that had made FRAND commitments obtaining injunctive relief to exclude willing licensees. AAG Delrahim, over the past year or so, has moved DOJ in a direction that allows SEP holders more freedom to use the exclusionary potential of those

patents. DOJ also has redirected its focus toward the conduct of licensees and the SSOs themselves.

On December 7, 2018, AAG Delrahim took another step toward implementing this new policy at DOJ by formally withdrawing DOJ's assent to the 2013 Joint DOJ-PTO Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments.<sup>3</sup> This withdrawal reinforces the expanding difference between the DOJ and FTC positions, and increases the need for both patent holders and licensees to consider carefully potential antitrust risks.

### Background

#### Antitrust as Applied to Standard Setting Organizations

As part of their work to develop technological standards for new products, SSOs typically bring together patent holders, who own intellectual property that will be integral to downstream products, and technology implementers, who manufacture end products based on that intellectual property. SSOs facilitate interoperability and efficiency by selecting an industry standard that all the participants can implement after licensing the required intellectual property. In establishing so-called "patent policies," SSOs usually

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require that a participant holding a patent essential to a proposed standard commit to certain conditions in order for its technology to be selected as part of the standard, usually including a commitment to license the patent on FRAND terms.

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**Antitrust enforcers recognize that standard setting offers procompetitive benefits.**

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Antitrust enforcers recognize that standard setting offers procompetitive benefits, including increased downstream competition, lower prices, and increased utility to consumers. The antitrust agencies have also acknowledged the potential anticompetitive risks created when industry participants, including competitors, jointly select a common technology standard and thus potentially create market power for selected patent holders. In particular, the antitrust authorities have been concerned that after a patent is chosen as part of a standard, the patent holder gains the ability to engage in “hold up” by charging more for the license than would have been charged prior to the patent being designated as an SEP. SSOs have commonly addressed such concerns by requiring patent holders to make a FRAND commitment before their patents are made part of the standard. Another potential risk associated with standard setting is known as “hold-out,” where potential licensees refuse to pay reasonable rates for a patent, essentially forcing patent holders to accept less than market value for patents and denying the patent holder fair compensation for the significant effort and investment made to develop the technology.

Enforcers traditionally have focused on patent “hold up” — with the FTC taking the position that violating a FRAND commitment might violate the antitrust laws where other elements of an antitrust claim are established, and DOJ leaving open the possibility that competition enforcement might be warranted in some cases and making clear that injunctive relief for an SEP holder was unlikely to be in the public interest.<sup>4</sup> Most of the enforcement activity and litigation regarding violation of FRAND commitments has focused on efforts by SEP-holders to obtain injunctions against potential licensees when they failed to reach agreement on what constituted FRAND licensing terms for a particular patent

The antitrust theory is, in essence, that where the designation of a patent as an SEP creates market power, and the patent holder agreed *ex ante* to a FRAND commitment in order to obtain that market power, violating the FRAND commitment *ex-post* means that the market power was obtained through anticompetitive means. The threat of an injunction creates disproportionate risk to a licensee because the dispute over licensing terms could result in an injunction that would exclude the licensee from the relevant market. This risk incentivizes the licensee to agree to supracompetitive licensing terms, which limits output and increases price to end consumers.

**Prior FTC and DOJ Enforcement Position**

The FTC has followed this view in several enforcement actions, including a January 2013 complaint against Google-Motorola Mobility.<sup>5</sup> The FTC alleged that Google-Motorola Mobility violated Section 5 of the FTC Act when it refused to give a license to a “willing licensee” on FRAND terms, thus harming competition, undermining the standard-setting process, and raising prices to customers.<sup>6</sup>

Also in January 2013, DOJ and the Patent and Trademark Office (PTO) issued a joint “Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments.” The policy statement addressed infringement remedies for SEPs where the patent holder has made a commitment to license on FRAND terms.<sup>7</sup> This joint statement was considered to be the official “Executive Branch” policy statement on this subject. The DOJ-PTO statement acknowledged the procompetitive benefits of standard setting, noted also that standard setting created certain anticompetitive risks, and specifically stated that FRAND commitments help mitigate these risks.<sup>8</sup> The joint statement further explained that, absent extraordinary circumstances, an injunction or exclusionary order to enforce an SEP “may be inconsistent with the public interest” because it could undermine a patent holder’s commitment to license on FRAND terms to willing licensees.<sup>9</sup>

This policy statement formed part of the basis of an August 2013 decision by the Office of the Trade Representative voiding an International Trade Court exclusion order banning the importation of Apple phones because they infringed a Samsung SEP.<sup>10</sup> The Trade Representative’s decision

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cited the 2013 DOJ-PTO Joint Policy Statement for the proposition that absent extraordinary circumstances, exclusionary relief is not an appropriate remedy for infringement of an SEP.<sup>11</sup>

And, as recently as 2015, DOJ reiterated its views in a business review letter issued to the Institute of Electrical and Electronics Engineers, Incorporated (IEEE), an SSO actively engaged in the debate about proper FRAND policy.<sup>12</sup> The IEEE business review letter endorsed an updated IEEE FRAND policy that prohibited patent holders from seeking injunctions against willing licensees and provided guidance regarding the factors to be considered when setting a “reasonable” license rate.<sup>13</sup>

Finally, in January 2017, the FTC filed suit against Qualcomm, alleging antitrust violations based, in part, on what the complaint described as Qualcomm’s violation of FRAND commitments for baseband processor SEPs and imposition of non-FRAND rates for cellular SEPs.<sup>14</sup>

### **DOJ Takes a New Position**

Since shortly after the beginning of the Trump administration, DOJ has been moving away from its previous position on FRAND, and on patent enforcement more generally, and moving toward a position more skeptical of restrictions on patent holders. On November 10, 2017, AAG Delrahim announced that DOJ would not pursue Sherman Act claims against SEP holders that violate FRAND commitments, including those that seek injunctions against willing licensees.<sup>15</sup> AAG Delrahim argued that common law and patent law provide “perfectly adequate and more appropriate” remedies.<sup>16</sup> Moreover, he indicated that DOJ enforcement would be focused on “hold out” by implementers rather than “hold up” by patent holders. AAG Delrahim has reiterated this position repeatedly, as part of a broader shift in patent enforcement policy that he has dubbed “The ‘New Madison’ Approach.”<sup>17</sup>

Consistent with the preceding speeches, on March 7, 2018, Andrew Finch, Principal Deputy Assistant Attorney General for the Antitrust Division, issued a letter to the American National Standards Institute (ANSI), an umbrella group that coordinates standard setting, accredits SSOs, and helps form standard-setting policies. PDAAG Finch warned ANSI against any decision that might potentially limit the rights and options

of patent holders, and noted that the Antitrust Division will “be skeptical of rules that SSOs impose that appear designed specifically to shift bargaining leverage from IP creators to implementers, or vice versa.”<sup>18</sup>

The letter also directed ANSI to maintain “balanced representation in its decisional bodies” to prevent “outsized influence of one group or another.”<sup>19</sup>

DOJ next revisited its position on the 2015 IEEE business review letter. On April 10, 2018, AAG Delrahim indicated that DOJ’s support for the letter was limited. He noted that “this letter should never be cited for the proposition that what IEEE did is required, or that a patent holder who seeks an injunction is somehow in violation of the antitrust laws.”<sup>20</sup>

And finally, on December 7, 2018, AAG Delrahim announced that the Antitrust Division was “withdrawing its assent” to the 2013 DOJ-PTO joint policy statement.<sup>21</sup> AAG Delrahim took the opportunity to reiterate his belief that contract and patent law are sufficient to regulate the authority of a patent owner to seek and obtain an injunction, even where the patent is a FRAND-encumbered SEP, and that there is no cognizable violation of the antitrust laws where an SEP holder violates a FRAND agreement or seeks an injunction to exclude a willing licensee.<sup>22</sup> He noted again that DOJ has focused its attention on coordinated “hold out” behavior by patent-licensee implementers in SSOs, explaining that manufacturers might be collectively exerting monopsony power if they coordinate to dictate licensing terms to the patent holder during the standardization process.<sup>23</sup> Delrahim recommended that SSOs utilize procedural safeguards when designing their patent policies,<sup>24</sup> and he warned that without such safeguards SSOs “run a high risk that the mission will creep away from procompetitive purposes.”<sup>25</sup>

AAG Delrahim stated that DOJ would work with the PTO to issue new guidance.<sup>26</sup>

The PTO has yet to comment on DOJ’s withdrawal, and it is unclear when new joint guidance will be published.

### **Counseling in the Face of Inter-Agency Disagreement**

The decision to withdraw from the 2013 Joint Statement is further evidence of DOJ’s shifting approach to antitrust enforcement in the context of

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standard setting and intellectual property more generally. Although the FTC has publicly stated that the two antitrust enforcers share the same view on these issues, their differences are becoming increasingly clear. FTC Chairman Simons recently reaffirmed that the FTC believes that both “hold up” by patent holders and “hold out” by implementers can constitute antitrust violations.<sup>27</sup> Moreover, the FTC continues to pursue its case against Qualcomm, based in part on allegations of “hold up” conduct.<sup>28</sup>

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**DOJ has increased its scrutiny of the conduct of patent implementers and SSOs themselves.**

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Because the FTC continues to believe that violating FRAND commitments may give rise to a cognizable antitrust violation, DOJ’s shift in focus does not meaningfully affect a patent holder’s antitrust exposure. Patent holders must continue to consider carefully their approach to licensing, particularly with regard to FRAND-encumbered patents.<sup>29</sup>

At the same time, DOJ has increased its scrutiny of the conduct of patent implementers and SSOs themselves and emphasized the possibility of enforcement against any coordinated effort to disadvantage patent holders. This increases the risk that any SSO policy that is adopted over the objections of patent holders could generate a DOJ investigation or enforcement action. To limit this risk, it is particularly important that SSOs establish and follow clear procedures that ensure due process and are designed to generate objectively defensible policy decisions.

**Notes**

1. Also known as Standard Developing Organizations (SDOs).
2. Also referred to as F/RAND or RAND.
3. Makan Delrahim, Asst. Att’y Gen., Antitrust Div., U.S. Dep’t. of Justice, “Telegraph Road” Incentivizing Innovation at the Intersection of Patent and Antitrust Law (Dec. 7, 2018), (hereinafter “Delrahim, *Telegraph Road Speech*”), <https://www.justice.gov/opa/speech/file/1117686/download>.
4. In *eBay v. MercExchange*, the Supreme Court held that a patent holder cannot get injunctive relief unless it can meet a four-factor test, including a showing that it cannot be made whole by monetary damages. 547 U.S. 388, 391 (2006). The consensus has been that where a patent holder has agreed to license on

- FRAND terms it has already contractually given up its right to exclude and instead agreed to license. The only remaining issue is the proper licensing terms and thus an injunction is usually not justified for an SEP, unless an infringer is unwilling to negotiate reasonably. See *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1331–32 (Fed. Cir. 2014).
5. In the Matter of Dell Computer Corp., 121 F.T.C. 616 (F.T.C. 1996); see also, Press Release, Fed. Trade Comm’n, FTC Issues Complaint Against Rambus, Inc. (Jun. 19, 2002), <https://www.ftc.gov/news-events/press-releases/2002/06/ftc-issues-complaint-against-rambus-inc>; Analysis of Proposed Consent Order To Aid Public Comment, In the Matter of Motorola Mobility LLC and Google Inc., No. 121–0120 (Jan. 3, 2013), <https://www.ftc.gov/sites/default/files/documents/cases/2013/01/130103googlemotorolaanalysis.pdf>.
  6. See Analysis of Proposed Consent Order To Aid Public Comment, In the Matter of Motorola Mobility LLC and Google Inc., No. 121–0120 (Jan. 3, 2013), <https://www.ftc.gov/sites/default/files/documents/cases/2013/01/130103googlemotorolaanalysis.pdf>. The requirement that the licensee be “willing” was an effort to prevent licensees from holding up the patentee; accordingly where the licensee is unwilling to pay a reasonable fee, the patent holder is allowed to seek an injunction. See *id.* at 7.
  7. U.S. Dep’t of Justice & U.S. Patent & Trademark Office, Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments (Jan. 8, 2013), [https://www.uspto.gov/sites/default/files/documents/Final\\_DOJ-PTO\\_Policy\\_Statement\\_on\\_FRAND\\_SEPs\\_1-8-13.pdf](https://www.uspto.gov/sites/default/files/documents/Final_DOJ-PTO_Policy_Statement_on_FRAND_SEPs_1-8-13.pdf).
  8. *Id.*
  9. *Id.*
  10. Letter from Michael B. G. Froman, Ambassador, U.S. Trade Rep., to Irving A. Williamson, Chairman, Int’l Trade Comm’n (Aug. 3, 2013), [https://ustr.gov/sites/default/files/08032013 Letter\\_1.PDF](https://ustr.gov/sites/default/files/08032013%20Letter_1.PDF).
  11. *Id.*
  12. Letter from Renata B. Hesse, Acting Asst. Att’y Gen., Dep’t of Justice, to Michael A. Lindsay, Dorsey & Whitney LLP, Counsel for Institute of Electrical and Electronics Engineers, Incorporated (Feb. 2, 2015) (hereinafter “IEEE Business Review Letter”), <https://www.justice.gov/sites/default/files/atr/legacy/2015/02/02/311470.pdf>; see also Jimmy Hoover, *FRAND Regime ‘Not Working Very Well,’ DOJ Official Says*, Law360 (Apr. 14, 2015), <https://www.law360.com/articles/643285/frand-regime-not-working-very-well-doj-official-says>; Ron Lubosco, *US Antitrust Agencies Seek To Balance Enforcement With Competition Advocacy, Including In Areas Such As SEPs, DoJ’s Hesse Says*, MLex (Mar. 16, 2016).



13. IEEE Business Review Letter, *supra* note 12.
14. Compl. ¶¶ 3, 147, *FTC v. Qualcomm Inc.*, No. 5:17-cv-00220 (N.D. Cal. Jan. 17, 2017).
15. Makan Delrahim, Asst. Att’y Gen., Antitrust Div., Dep’t of Justice, Take it to the Limit: Respecting Innovation Incentives in the Application of Antitrust Law (Nov. 10, 2017), <https://www.justice.gov/opa/speech/file/1010746/download>.
16. *Id.*
17. See Makan Delrahim, Asst. Att’y Gen., Antitrust Div., U.S. Dep’t of Justice, *Antitrust Law and Patent Licensing in the New Wild West* (Sep. 18, 2018), <https://www.justice.gov/opa/speech/file/1095011/download>; Makan Delrahim, Asst. Attorney General, Antitrust Div., U.S. Dep’t of Justice, *The Long Run: Maximizing Innovation Incentives Through Advocacy and Enforcement* (Apr. 10, 2018), <https://www.justice.gov/opa/speech/file/1050956/download>; Makan Delrahim, Asst. Att’y Gen., Antitrust Div., U.S. Dep’t of Justice, *The “New Madison” Approach to Antitrust and Intellectual Property Law* (Mar. 16, 2018), <https://www.justice.gov/opa/speech/file/1044316/download>; see also Pallavi Guniganti, *US DOJ Official: Antitrust Shouldn’t Interfere in SEPs if Other Laws are Available*, GCR (Nov. 8, 2017), <http://globalcompetitionreview.com/article/1149857/us-doj-official-antitrust-shouldn%E2%80%99t-interfere-in-seps-if-other-laws-are-available>.
18. Letter from Andrew Finch, Principal Dep’t. Asst. Att’y Gen., Antitrust Div. U.S. Dep’t of Justice, to Patricia Griffin, Vice President and General Counsel of ANSI, and Amy Marasco, Chair of IPRPC (Mar. 7, 2018) (quoting Delrahim, *Telegraph Road Speech*, *supra* note 3), <https://www.justice.gov/atr/page/file/1043456/download>.
19. *Id.*
20. Makan Delrahim, Asst. Att’y Gen., Antitrust Div., U.S. Dep’t of Justice, *The Long Run: Maximizing Innovation Incentives Through Advocacy and Enforcement* (Apr. 20, 2018), <https://www.justice.gov/opa/speech/assistant-attorney-general-makan-delrahim-delivers-keynote-address-leadership-conference>.
21. Delrahim, *Telegraph Road Speech*, *supra* note 3.
22. *Id.*
23. *Id.*
24. AAG Delrahim mentioned specifically the due process requirements mandated by ANSI, [https://share.ansi.org/Shared\\_Documents/Standards\\_Activities/American\\_National\\_Standards/Procedures,\\_Guides,\\_and\\_Forms/2019\\_ANSI\\_Essential\\_Requirements.pdf](https://share.ansi.org/Shared_Documents/Standards_Activities/American_National_Standards/Procedures,_Guides,_and_Forms/2019_ANSI_Essential_Requirements.pdf); See ANSI, Essential Requirements §§ 1.1–1.3, 1.7–1.9, 2.0–2.3, 2.7–2.8 (2018). These rules require SSOs to establish written procedures that guarantee, among other things, an open and balanced process that is not dominated by any party or interest group, makes decisions by consensus, and provides an “identifiable, realistic, and readily available appeals mechanism for the impartial handling of procedural appeals.” *Id.*
25. Delrahim, *Telegraph Road Speech*, *supra* note 3. Similarly, AAG Delrahim emphasized that firms would be scrutinized if they engaged in a group boycott of an SSO because of its patent policy.
26. *Id.*
27. Prepared Remarks of Chairman Joseph Simons Georgetown Law Global Antitrust Enforcement Symposium (Sep. 25, 2018), [https://www.ftc.gov/system/files/documents/public\\_statements/1413340/simons\\_georgetown\\_lunch\\_address\\_9-25-18.pdf](https://www.ftc.gov/system/files/documents/public_statements/1413340/simons_georgetown_lunch_address_9-25-18.pdf).
28. The district court denied Qualcomm’s motion to dismiss in June 2017. See *FTC v. Qualcomm Inc.*, No. 17-CV-00220, 2017 WL 2774406 (N.D. Cal. June 26, 2017).
29. State AGs and private parties also have the ability to litigate such claims, and have done so in the past. See e.g., *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297 (3d Cir. 2007); *Apple Inc. v. Samsung Elecs. Co.*, No. 11-CV-01846, 2012 WL 1672493, at \*7 (N.D. Cal. May 14, 2012).

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