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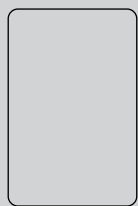
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# Intellectual Property & Antitrust 2021

**Contributing editors****Peter J Levitas and Matthew A Tabas****Arnold & Porter Kaye Scholer LLP**

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Lexology Getting The Deal Through is delighted to publish the 15th edition of *Intellectual Property & Antitrust*, which is available in print and online at [www.lexology.com/gtdt](http://www.lexology.com/gtdt).

Lexology 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 Lexology Getting The Deal Through format, the same key questions are answered by leading practitioners in each of the jurisdictions featured. Our coverage this year includes new chapters on India and Kazakhstan.

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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.

Lexology 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 and Matthew A Tabas of Arnold & Porter Kaye Scholer LLP, for their assistance with this volume.



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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, 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. In past years there has been a 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. More recently, however, courts and antitrust authorities have been concerned that those FRAND commitments may create a risk of 'patent hold-out' (ie, where licensees refuse to pay reasonable rates for an SEP, forcing a patentholder to accept less than market value for patents and denying the patent holder fair compensation for the effort and investment made to develop the technology). How to define FRAND, who is entitled to define FRAND, how to assess whether particular licensing terms comply with a FRAND obligation, whether and in what circumstances a FRAND violation may be an antitrust violation, as well as the risks generally associated with SEP-licensing, remain the focus of competition authorities and courts around the world.

## United States

On 11 August 2020, the US Court of Appeals for the Ninth Circuit overturned a Northern District of California decision, which had found in favour of the US Federal Trade Commission (FTC) in its challenge to Qualcomm Inc's SEP-licensing practices. The FTC had alleged that Qualcomm has attempted illegally to maintain its monopoly in the sale of baseband processors (ie, modem chips) for mobile handsets by refusing to license its handsets on FRAND terms to all market participants. Specifically, the District Court held that Qualcomm's FRAND obligations created an antitrust duty to license its SEPs to rivals, not just to customers. Accordingly, the District Court found that Qualcomm had violated the antitrust laws by refusing to license its SEPs to rival modem-chip suppliers to limit their ability to compete with Qualcomm.

The District Court also found that Qualcomm had violated sections 1 and 2 of the Sherman Act by employing anticompetitive acts against mobile handset OEMs to protect its monopoly power in modem chip markets, including cutting off modem chip supply, threatening to withdraw technical support, and engaging in unlawful volume discounting and rebating.

Following an appeal by Qualcomm, the US Court of Appeals for the Ninth Circuit vacated the District Court's decision. The Ninth Circuit held that Qualcomm's FRAND obligations did not create an antitrust duty to license its SEPs to rival chip manufacturers, and therefore Qualcomm's refusal to license its rivals was not an antitrust violation. The Court also

rejected the District Court's theory of harm that Qualcomm's licensing strategy created an anticompetitive surcharge on its competitors' chips that undermined competition in the modem chip market.

Further, the Ninth Circuit rejected the FTC's argument that the breach of a FRAND commitment alone could create an antitrust violation, and found that such any breach was appropriately remedied by contract or tort actions, instead of an antitrust action.

During the *Qualcomm* proceedings before the Ninth Circuit, the US Department of Justice's Antitrust Division (DOJ) had argued that the District Court had incorrectly ruled in favour of the FTC in the underlying case. The fact that the DOJ filed in opposition to the FTC in an FTC litigation is highly unusual, but the position taken by the DOJ in the Qualcomm matter is consistent with its current approach to issues at the nexus of antitrust and intellectual property law.

DOJ Assistant Attorney General (AAG) Makan Delrahim has labelled this approach the 'New Madison' view of antitrust law, which he describes as an effort to 'achieve a greater degree of symmetry between the duelling concerns of 'hold up' by patent holders and 'hold out' by patent implementers'. AAG Delrahim has stated repeatedly his view that antitrust law should not be used to enforce FRAND licensing commitments made by SEP-holders to SSOs, 'even if a patent holder is alleged to have misled or deceived [an SSO] with respect to its licensing intentions'. For example, in its 28 July 2020 Business Review Letter to Avanci regarding a proposed joint patent-licensing pool, the DOJ noted that SEP-holders 'can enforce the [FRAND] commitments in contract proceedings if there are disputes' and noted that DOJ did 'not assess whether licensors could be held liable for breaching their individual FRAND commitments if they choose not to license outside the proposed Platform to suppliers.'

AAG Delrahim previously had taken action consistent with his expressed views on SEP issues by formally withdrawing the DOJ from the joint DOJ and US Patent and Trademark Office (PTO)'s 2013 Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments. That 2013 Policy Statement emphasised the importance of FRAND commitments in mitigating certain anticompetitive risks in the standard-setting process, and expressed the view 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.

DOJ has recently taken even more aggressive action to implement its new approach on SEP issues. On 10 September 2020, the DOJ took 'an extraordinary step to' issue a supplement and update to an existing Business Review Letter, specifically, the 2 February 2015 Business Review Letter to the Institute of Electrical and Electronics Engineers, Incorporated (IEEE). The IEEE Business Review Letter had approved a prohibition against SEP-holders seeking injunctions against willing licensees and recommended that FRAND licensing rates utilise a smallest saleable patent practicing unit (SSPPU) method. In its 2020 supplement, DOJ addresses 'concerns raised publicly by industry, lawmakers, and

former department and other federal government officials that the 2015 letter has been misinterpreted, and cited frequently and incorrectly, as an endorsement of the IEEE's Patent Policy'. Notably, the 2020 supplement acknowledges an SEP-holders' right to seek injunctive relief 'to obtain the appropriate value for its invention.' Further, the 2020 supplement rejects the requirement that a FRAND rate be based on the SSPPU and instead notes that 'there is no single correct way to calculate a reasonable royalty in the FRAND context.' The supplement also notes the DOJ's views on the danger of 'hold out' by patent implementers. Thus, while cast as a supplement, the DOJ revision effectively rejects significant positions taken by the DOJ in the original IEEE Business Review Letter.

The implications of the *Qualcomm* decision and DOJ's efforts in this area can already be seen in a September 2020 decision from a federal district court in the Northern District of Texas, in which the court held that a SEP-holder's violation of its FRAND commitment does not constitute an antitrust violation. In *Continental Automotive Systems, Inc. et al. v Avanci, LLC, et al.*, the plaintiff alleged that defendants pooled their SEPs for vehicle telematics control units (TCUs) and then refused to offer those SEPs on FRAND terms. Although the court dismissed the action on a number grounds, it also held that 'an SEP holder may choose to contractually limit its right to license the SEP through a FRAND obligation, but a violation of this contractual obligation is not an antitrust violation'. The court also went further than other recent decisions and found that 'fraudulent FRAND declarations to the SSOs that induced the SSOs to include Defendants' SEPs in their standards', even if they resulted in the exclusion of defendants' competitors from the standard, did not constitute antitrust violations. (Relatedly, in Germany, several courts also recently have allowed these same SEP-holders to seek injunctions against Continental's OEM, Daimler.)

### European Union & United Kingdom

Recent cases from the German Federal Court of Justice and the UK Supreme Court have provided guidance on the interpretation of the European Court of Justice's July 2015 decision in *Huawei Technologies Co Ltd v ZTE Corp. and ZTE Deutschland GmbH*, which laid out criteria for when an SEP-holder is entitled to seek an injunction against a potential licensee (without violating the antitrust laws).

On 5 May 2020, the German Federal Court of Justice issued a decision in *Sisvel International S.A. v Haier Deutschland GmbH* overturning a lower court's determination that Sisvel's failure to offer Haier comparable licensing terms to Hisense for its communication SEPs violated Sisvel's FRAND obligations, and that Sisvel's patent infringement action for injunctive relief constituted abuse of dominance. Instead, the Federal Court of Justice found that Haier's failure to engage in good-faith negotiations did not qualify it as a willing licensee under *Huawei v. ZTE*. The court also held that that an SEP-holder can make different FRAND offers to different licensees without violating its FRAND commitment (but noted that the SEP-holder must provide an objective reason for the differing treatment).

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On 26 August 2020, the Supreme Court of the United Kingdom ruled in *Unwired Planet International Ltd. v. Huawei Technologies (UK) Co. Ltd. and Huawei Technologies Co. Ltd. v. Conversant Wireless Licensing SARL* that a SEP-holder may seek an injunction without abusing its dominance as long as it demonstrates that it is a willing licensor on FRAND terms, even in cases where the SEP-holder only agrees to be bound by FRAND terms set by a court (rather than offer FRAND terms itself in the first instance). *Huawei v. ZTE* did not set out a mandatory set of steps or protocols that must be followed prior to seeking an injunction, but held that whether or not a FRAND offer is reasonable will depend on the facts of the case. Further, the 'non-discriminatory' prong of that FRAND offer does not need to be a single 'most favoured' rate for all licensees. Finally, the court held that English courts have both the power to enjoin an SEP-implementer (unless it enters into global FRAND licence of a portfolio that includes foreign patents) and to determine royalty rates and terms of such a licence.

### 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 *Lexology Getting the Deal Through – Intellectual Property & Antitrust* summarises recent developments in law and policy affecting these and other areas from jurisdictions around the world.

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