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Getting The Deal Through

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Lexology Getting The Deal Through is delighted to publish the fourteenth edition of Intellectual Property and Antitrust, which is available in print and online at 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.

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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 editor, Peter J Levitas of Arnold & Porter Kaye Scholer LLP, for his continued assistance with this volume.

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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. Some, however, believe 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 patent holder 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 and how to assess whether particular licensing terms comply with a FRAND obligation, as well as the risks generally associated with SEP-licensing, remain a focus of competition authorities and courts around the world.

United States

In May 2019, US District Court Judge Lucy H Koh of the Northern District of California issued a decision 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 for mobile handsets (ie, modem chips) by refusing to license its handsets on FRAND terms to all market participants. Following a 10-day bench trial, the court found that Qualcomm had violated sections 1 and 2 of the Sherman Act by using its monopoly power in modem chip markets to engage in a wide variety of anticompetitive acts against mobile handset OEMs. Importantly, the court also held that Qualcomm's FRAND obligations created an antitrust duty to license its SEPs to rivals, not just to customers. Therefore, the court found that Qualcomm had also violated the antitrust laws by refusing to license its SEPs to rival modem-chip suppliers to limit their ability to compete with Qualcomm.

The court ordered that:

- Qualcomm must not condition the supply of modem chips on a customer's patent licence status;
- Qualcomm must negotiate or renegotiate licence terms with customers in good faith under conditions free from the threat of eliminating or impairing access to modem chips or associated technical support or access to software;
- Qualcomm must make SEP licences available to modem-chip suppliers on FRAND terms and submit, as necessary, to arbitral or judicial dispute resolution to determine such terms;
- those licences must be exhaustive (ie, they must be subject to the doctrine of patent exhaustion, which says that 'the initial authorised sale of a patented item terminates all patent rights to that item';
- Qualcomm may not enter express or de facto exclusive dealing agreements with buyers for the supply of modem chips;
- Qualcomm may not interfere with the ability of any customer to communicate with a government agency about a potential law enforcement or regulatory matter; and
- Qualcomm must submit to certain compliance reporting and monitoring by the FTC.

Qualcomm has appealed the District Court's decision to the US Court of Appeals for the Ninth Circuit, which is scheduled for oral argument in January 2020. The Ninth Circuit has stayed Judge Koh's order pending the appeal.

On 10 June 2019, the US Department of Justice's Antitrust Division (DOJ), with the support of the US Department of Defense and US Department of Energy, filed an amicus brief with the Ninth Circuit in support of Qualcomm's request for a stay of the District Court's order and also 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 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'.

AAG Delrahim had previously taken action to implement the New Madison approach 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. This joint statement had 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.

The shift in approach by the DOJ and the conflict between the DOJ and the FTC both bear watching.

In May 2019, a federal district court in the Eastern District of Texas weighed in on the narrower question of how to assess a 'fair and reasonable' licence rate under FRAND in *HTC Corporation & HTC America Inc v Telefonaktiebolaget LM Ericsson & Ericsson Inc*. In this case, HTC claimed that Ericsson, a manufacturer and distributor of cellular handsets, failed to offer FRAND terms for its 2G, 3G and 4G cellular technology SEPs. HTC argued that the FRAND royalty calculation should be based on the smallest saleable patent practising unit (SSPPU) contained in the cellular handset (in this case, the baseband processor). The court rejected these arguments and held that Ericsson complied with its FRAND commitment when it offered a royalty rate based on the entire cellular device. The court found that the SEPs at issue were more valuable than the cost of the baseband processor and noted that comparable licences offered by Ericsson were priced based on the entire unit.

The *HTC* decision is notable in particular because it did not adopt the approach used by the district court in 2017's *TCL Communication Technology Holdings, Ltd v Telefonaktiebolaget LM Ericsson and Ericsson Inc*. In that case, the court used a 'top-down' approach that started with the total value of the standard at issue, 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. The *TCL* case is currently on appeal to the US Court of Appeals for the Federal Circuit, which may provide clarity on the appropriate method of determining FRAND rates.

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European Union

Recent cases in the EU have provided further interpretations of the European Court of Justice's July 2015 decision in *Huawei Technologies Co Ltd v ZTE Corp, 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.

In the Netherlands, the Court of Appeal of The Hague issued two decisions involving Philips' FRAND licensing of its SEPs for 3G and 4G wireless technology. In its 7 May 2019 decision in *Koninklijke Philips NV v Asustek Computers Inc, Asus Europe BV and Asus Holland BV*, the Court of Appeal found that Philips was entitled to an injunction against Asus because Asus had employed delaying tactics, and thus was not a willing licensee. The Court of Appeal reached the same conclusion in its *Koninklijke Philips NV v Wiko SAS* decision, issued on 2 July 2019.

Importantly in each of these decisions, the Court of Appeal did *not* consider the licensing criteria deemed to be appropriate in *Huawei v ZTE*, as this required steps in the negotiating process under the facts of the case. For example, Philips was not required to make a FRAND licence offer, since neither Asus nor Wiko had shown itself to be a willing licensee before Philips initiated litigation.

In addition to these cases, on 12 June 2019, the European Committee for Standardization and the European Committee for Electrotechnical Standardization together published two competing papers from SEP-holders and SEP-licensees, respectively, offering principles and guidance for SEP licensing and focusing on the question of whether SEP-holders must license their patents to any entity that seeks one. These papers follow competing workshops by the SEP-holders and SEP-licensees, with the first hosted by SEP-holders in October 2017, and the second hosted by SEP-licensees in February 2018. Indeed, the two papers reflect an ongoing dispute between SEP-holders and licensees regarding the rights and obligations of SEP-holders who have committed to FRAND licensing.

For example, the SEP-holders' paper argues that FRAND dictates that an SEP-holder 'should not discriminate between similarly situated competitors' but does not require them to license all comers nor does it require licensing terms 'to be identical among similarly situated licensees'. In addition, the paper suggests that licensing is best limited to a single point in the supply chain 'to simplify licensing, reduce costs for all parties and maintain a level playing field between licensees' and that an SEP-holder may seek an injunction in a court proceeding if parties cannot agree on licence terms. In contrast, the SEP-licensees argue that a SEP-holder must not threaten, seek or enforce an injunction except in rare circumstances (ie, only when FRAND compensation cannot be addressed by negotiation or a court because of a lack of jurisdiction or bankruptcy) and that 'a FRAND license should be made available to anybody that wants one to implement the relevant standard'.

Other issues of note

Trademark

On 7 November 2018, the FTC found that 1-800 Contacts, the largest online seller of contact lenses in the US, violated section 5 of the FTC Act by entering into a series of trademark infringement settlement agreements that required its rivals to limit their internet search keyword bidding and advertising. The FTC found that the settlement agreements harmed consumers and competition for the online sale of contact lenses by limiting the availability of truthful internet advertising in response to keyword searches, thus restricting the ability of consumers to price-comparison shop between competing suppliers of contact lenses. 1-800 Contacts has appealed this decision to the US Court of Appeals for the Second Circuit.

Reverse-payment patent settlements

On 3 April 2019, the FTC issued a decision in *In the matter of Impax Laboratories, Inc*, its second decision on reverse payment patent litigation settlements in the pharmaceutical industry and its first decision since the US Supreme Court addressed the issue in *FTC v Actavis, Inc*. In *Actavis*, the Supreme Court held that such settlements are subject to 'rule of reason' analysis to determine whether they violate the antitrust laws. The FTC's administrative complaint alleged that Impax entered into an unlawful patent litigation settlement with Endo Pharmaceuticals Inc, in which it received from Endo a commitment not to launch an authorised generic to compete with Impax's generic product for a limited time, a payment for a development and co-promote agreement, and a contingent payment, in exchange for the dismissal of Impax's patent suit, which the FTC alleged delayed entry of Impax's generic product. In its April 2019 decision, the FTC held that a plaintiff can 'establish the existence or likelihood of substantial anticompetitive harm' by 'proving a large, unjustified payment was made in exchange for deferring entry into the market or for abandoning a patent suit, plus the existence of market power'. According to the FTC, the entire arrangement had violated section 5 of the FTC Act because Impax did not show procompetitive benefits sufficient to overcome that presumption. Impax has appealed the FTC's decision.

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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