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NOTE

FRAND-ENCUMBERED SEPS AND INJUNCTIONS: WHY SECTION 5 OF THE FTC ACT IS AN INAPPROPRIATE REMEDY†

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When a standard setting organization (SSO) for an industry establishes an industry standard, and that standard utilizes a standard essential patent (SEP), every participant in that industry who desires to practice the standard is required to use that particular patent. In today's high-speed, interoperable, and global economy, SEPs provide valuable benefits to consumers by fostering uniformity and compatibility. However, an agreement by an entire industry to use a single patent confers a special power on the holder of that patent to control access to a given product market, due to the traditional right of a patent holder to exclude others from using its patent. To prevent hold-up, an SSO typically requires the holder of an SEP to agree to license the patent either on a royalty-free basis or at a fair, reasonable, and non-discriminatory (FRAND) rate. In reality, however, SEP holders do not always abide by their FRAND commitments and sometimes seek injunctions against industry participants wishing to utilize the standard. The dilemma facing private parties, courts, and government agencies is how to address these breaches of FRAND commitments. This Note focuses on one response—the Federal Trade Commission's use of Section 5 of the Federal

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Trade Commission Act. After analyzing prior Section 5 enforcement actions in this area, this Note recommends that the FTC should refrain from enforcing Section 5 against the holders of FRAND-encumbered SEPs that seek injunctions on the use of their patents. First, the FTC has failed to provide sufficient guidance to industry participants on what conduct it considers harmful to competition. Further, the lack of guidance provided by the FTC's prior enforcement actions does not show any commitment to applying consistent principles to future cases. The current procedure for FTC enforcement actions is not capable of establishing sufficient clarity. Second, the FTC has not demonstrated what, if any, competitive harm results from the holder of a FRAND-encumbered SEP obtaining an injunction; in fact, disallowing injunctions may create its own competitive harm. Only when the FTC finds competitive harm from obtaining an injunction should it bring a Section 5 case. Third, the FTC has not adequately considered the substantial benefits that result from the general use of SEPs and from allowing injunctions, and how its enforcement action may ultimately undermine those benefits. Lastly, the ability of and incentive for SEP holders and other interested parties to pursue other methods of resolution counsels against the use of Section 5. In light of these effects, the use of Section 5 will tend to chill innovation and harm consumer welfare—an outcome contrary to the goals of antitrust law. Until the FTC can provide adequate guidance to address these concerns, provide clarity to market participants, and show that anticompetitive harm results when the holder of a FRAND-encumbered SEP seeks an injunction, the agency should refrain from bringing Section 5 actions in this context. Only through issuing clear enforcement guidelines can the FTC ensure that it encourages innovation and benefits consumers, both domestically and abroad.

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I. INTRODUCTION

"Telephones talk to each other, the Internet works, and hairdryers plug into electrical sockets because private groups have set 'interface' standards, allowing compatibility between products made by different manufacturers."[1] Standardization occurs most

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1. Steven M. Amundson, *Recent Decisions Provide Some Clarity on How Courts and Government Agencies Will Likely Resolve Issues Involving Standard-Essential Patents*, 13 CHI.-KENT. J. INTELL. PROP. 91, 91 (2014) (quoting Mark A.

commonly in consumer-facing, technology markets. "A computer processor chip, for example, has limited utility without a hard drive, operating memory, and input/output components. Standards facilitate the interconnectivity of these different components, allowing the manufacturers of each individual piece to follow common blueprints that specify the physical interface, communication protocols, and other features that enable interoperability."[2]

The private groups responsible for adopting industry standards are known as standard setting organizations ("SSOs"); membership in these groups is voluntary. Standardization—the adoption of a single standard by an industry for a given product or technology—may mean that any entity wishing to practice that standard must obtain the right to use a particular patent necessary to the standard; such a patent is called a standard essential patent ("SEP"). Given the ability of a patent holder to exclude others from using its patent, an SEP provides its holder the ability to exclude others from a related product market entirely. To eliminate this possibility, most SSOs require that their members agree to license any patent that is designated an SEP to all entities that wish to practice the standard at a fair, reasonable, and non-discriminatory ("FRAND") rate.

Patent holders do not always abide by these licensing commitments, and they sometimes seek injunctions to prevent the use of an SEP in order to exclude competitors from a market or to obtain higher licensing fees. When a breach of a licensing commitment occurs, interested parties, including the Federal Trade Commission ("FTC" or "Commission") rely on various strategies to enforce these contractual obligations.

This Note focuses on one of those strategies—the FTC's use of Section 5 of the Federal Trade Commission Act ("FTC Act")—and addresses whether it is appropriate for the FTC to bring an antitrust claim under Section 5 against the holder of a FRAND-encumbered SEP that is seeking an injunction to prevent the use of that patent. The analysis below supports the conclusion that the use of Section 5 is not appropriate, and until the FTC can provide formal guidance, it should refrain from such enforcement.

Lemley, *Intellectual Property Rights & Standard-Setting Organizations*, 90 CALIF. L. REV. 1889, 1893 (2002) (internal quotation omitted)).

2. Jonathan Hillel, *Standards × Patents ÷ Antitrust = ∞: The Inadequacy of Antitrust to Address Patent Ambush*, 2010 DUKE L. & TECH. REV. 17, ¶ 7 (2010).

First, the FTC has not provided sufficient clarity on what it considers to be anticompetitive conduct by the holder of an SEP. Using Section 5 without providing clear guidance regarding the allegedly unlawful conduct reduces the desirability of SSO participation, thus harming companies and consumers by dampening innovation, deterring standardization, increasing prices, and decreasing product choice. Second, the FTC has failed to provide empirical evidence that the proscribed conduct actually causes anticompetitive harm; antitrust enforcement is considered inappropriate where the conduct at issue does not harm competition or consumers. Third, the use of Section 5 may ultimately undermine many of the benefits that result from standardization and from the ability of a patent holder to pursue an injunction. Fourth, impacted parties have the incentive and the opportunity to pursue other methods of resolution that would not undermine the benefits of the use of SEPs, which weighs against the use of Section 5.

In sum, the FTC should not use Section 5 unless it can ensure that Section 5 is being applied in a way that provides clarity to market participants and preserves the benefits of SEPs, SSOs, and injunctions. To accomplish this end, the FTC should provide formal guidance outlining what conduct it considers to be anticompetitive and its reasons for that finding.

Part II of this Note provides background on standardization, its consumer benefits and its anticompetitive concerns, and the use of licensing commitments. Part III highlights enforcement efforts under a breach of contract theory and under the Sherman Act. It then provides a detailed look at recent Section 5 enforcement actions in this context, and analyzes their reasoning and their results. Based on an analysis of the Section 5 precedent and general antitrust considerations, Part IV discusses why continued use of Section 5 without proper guidance is inappropriate. Part IV.A also briefly discusses why the current structure of the FTC's Horizontal Merger Guidelines could provide a working template for the creation of SEP guidance. Part V concludes the Note, illustrating a further harm to international antitrust regimes that arises from the FTC's improper use of Section 5.

II. BACKGROUND

The Constitution of the United States grants Congress the ability to promote the sciences by granting inventors special rights to their discoveries.[3] The intellectual property ("IP") laws created by

3. U.S. CONST. art. I, § 8, cl. 8.

Congress establish "exclusive rights that provide incentives for innovation by establishing enforceable property rights for the creators . . . prevent[ing] others from appropriating much of the value derived from their inventions."[4] By providing necessary incentives to creators in the form of monetary reward and public recognition, patent laws stimulate innovation, yielding better products and processes that benefit consumers.[5] Notably, patent grants provide holders the right to license their patents to others for a fee, to exclude others from practicing their patents, and to file lawsuits against those who use their patents without permission.[6] Specifically, a patent holder's unilateral right to refuse to license its patent to others is one of the patent grant's most fundamental features.[7]

A. Standards Essential Patents and Standard Setting Organizations

In our modern society, characterized in part by high-speed communication and trans-national relationships, consumers demand uniformity and compatibility. For instance, consumers require the ability to travel around the globe and still connect to a Wi-Fi hotspot from their cellular telephone, or the ability to plug a USB flash drive into any computer, open a document, and give a business presentation.[8] Such widespread interoperability[9] requires standardization. This may require that all manufacturers of a consumer product use a single patent, the SEP. "[A] patent is considered standard essential when it is declared or incorporated into an industry standard . . . subsequently requiring manufacturers

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4. U.S. DEP'T OF JUSTICE & THE FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION 1 (2007) [hereinafter PROMOTING INNOVATION].

5. *Standard Essential Patent Disputes and Antitrust Law: Hearing Before the Subcomm. on Antitrust, Competition Policy and Consumer Rights of the S. Comm. on the Judiciary*, 113th Cong. 2 (2013) (statement of Suzanne Munck, Chief Counsel for Intell. Prop. & Deputy Dir. of the Office of Policy Planning, Fed. Trade Comm'n); Edith Ramirez, Chairwoman, Fed. Trade Comm'n, Address at the 8th Annual Global Antitrust Enforcement Symposium: Standard-Essential Patents and Licensing: An Antitrust Enforcement Perspective (Sept. 10, 2014) [hereinafter Ramirez, SEPs and Licensing], *in* 2014 WL 4651663, at *2.

6. Eric Rogers & Young Jeon, *Inhibiting Patent Trolling: A New Approach for Applying Rule 11*, 12 NW. J. TECH. & INTELL. PROP. 291, 297 (2014).

7. 35 U.S.C. § 154(a)(1); PROMOTING INNOVATION, *supra* note 4, at 6.

8. *See* Elyse Dorsey & Matthew R. McGuire, *How the Google Consent Order Alters the Process and Outcomes of FRAND Bargaining*, 20 GEO. MASON L. REV. 979, 981 (2013); Amundson, *supra* note 1, at 91.

9. Interoperability refers to the ability for various technologies and systems, or their parts, to work together, for instance, to communicate or exchange data.

to license the patent for any technology that implements the standard."[10] When setting a standard, the SSO may consider multiple technologies with similar attributes, and companies compete vigorously to have their patent adopted as part of the standard.[11] However, "[o]nce a standard is adopted, an entire industry begins to make investments tied to that standard."[12] Similar to patents generally, "private firms will be willing to invest in standards development only as long as they believe that the investment will yield a satisfactory return."[13]

SSOs "arose as a means of facilitating interoperability and are primarily responsible for developing the standards used" in modern technology.[14] SSOs are private, voluntary-membership organizations that, by member consensus, decide which standard should be adopted for a given product or technology and help facilitate the licensing of necessary patents.[15] As private entities, SSOs are free to adopt rules of membership and to require members to abide by these rules in order to have a patent included as part of a standard.[16] Such conditions of membership and other rules of participation are therefore solely creations of contract law.[17] While these rules and conditions can vary considerably by SSO, certain terms are more common than others—in particular, the requirement that a firm whose technology is selected and whose patent is required for standardization agrees to license that patent either

10. Maureen K. Ohlhausen, Comm'r, Fed. Trade Comm'n, Recent Developments in Intellectual Property and Antitrust Laws in the United States (June 17, 2013) [hereinafter Ohlhausen, Recent Developments], *in* 2013 WL 3156593, at *1.

11. *Standard Essential Patent Disputes and Antitrust Law: Hearing Before the Subcomm. on Antitrust, Competition Policy and Consumer Rights of the S. Comm. on the Judiciary*, 113th Cong. 4–5 (2013) (statement of Suzanne Munck, Chief Counsel for Intell. Prop. & Deputy Dir. of the Office of Policy Planning, Fed. Trade Comm'n); *see also* Joshua D. Wright, *SSOs, FRAND, and Antitrust: Lessons from the Economics of Incomplete Contracts*, 21 GEO. MASON L. REV. 791, 794 (2014) (comparing SSO standardization and *de facto* standardization, and finding that "[e]ither way, firms compete against one another for their technologies to become the standard").

12. *Standard Essential Patent Disputes and Antitrust Law*, *supra* note 5, at 5.

13. Michael A. Lindsay, *Standards, Antitrust, FRAND Royalties, Injunctions and Free Speech: An Introduction*, 27-SUM ANTITRUST 7, 7 (2013).

14. Dorsey, *supra* note 8, at 981–82.

15. *See* Amundson, *supra* note 1, at 91–92.

16. Dorsey, *supra* note 8, at 982.

17. *See generally* Wright, *supra* note 11.

royalty-free or at a FRAND rate to any entity that seeks to include the technology within their product.[18]

Not all standards are adopted through SSOs. Some standards are established through market competition, whereby a single firm, either because it controls the only viable technology or because its product offers significant benefits over other options, "wins a marketplace competition and thus ends up defining the operation of a particular technology aspect for an entire market."[19] However, the process of SSO standardization has significant benefits over *de facto* standardization.[20] For instance, under the *de facto* competition process, if the market "does not tip toward a single product, and multiple, incompatible products prevail in the marketplace,"[21] the benefits of standardization will never be fully realized. SSO standardization "also avoids a standards war."[22] This "standards war" is the initial competition between firms in the open market to become the standard; it requires firms to expend substantial amounts of money and resources to attain the requisite customer base, costs which may ultimately be borne by the consumer.[23] Having to wait on market forces to determine the *de facto* standard may cause consumers to delay purchases, thereby undermining the network effects benefits of standardization[24] and hindering competition of complementary and differentiating products.[25]

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18. *Id.* The appropriate FRAND rate for a particular patent or technology and how it is determined is a separate question that has received much attention by scholars and the courts. That topic is beyond the scope of this Note.

19. Anne Layne-Farrar, *Moving Past the SEP RAND Obsession: Some Thoughts on the Economic Implications of Unilateral Commitments and the Complexities of Patent Licensing*, 21 GEO. MASON L. REV. 1093, 1095 (2014).

20. *See* Hillel, *supra* note 2, at ¶ 6 ("The principal benefits of formal (as opposed to *de facto*) standardization are twofold: standards facilitate the development of systems of complementary products and permit entry by competing firms at multiple points of the supply chain." (internal citations omitted)).

21. Wright, *supra* note 11, at n.10.

22. *Id.* at 794; Ramirez, SEPs and Licensing, *supra* note 5, at *2.

23. *See* Wright, *supra* note 11, at 794.

24. Network effects is the phenomenon whereby the "utility that a given user derives from the good depends upon the number of other users who are in the same 'network.' As more users begin to use the product and its utility grows, even more consumers will choose to use the product, and on it goes, creating a kind of snowball effect as more and more users flock to the product or standard." Bryan H. Druzin, *Anarchy, Order, and Trade: A Structuralist Account of Why A Global Commercial Legal Order is Emerging*, VAND. J. TRANSNAT'L L. 1049, 1078 (2014) (internal quotation and citation omitted).

25. *See id.* at 794–95; Hillel, *supra* note 2, at ¶ 6.

The majority of recent scholarship has focused on standardization through the formal SSO process.[26] This Note will follow suit for two reasons. First, the holdings and analyses of recent court decisions and FTC settlements on this topic have involved SSOs, generally considering liability in light of SSO participation.[27] Therefore, this Note, as an analysis of prior cases, need not consider the impact of *de facto* standardization. Second, where standardization can occur via the SSO or *de facto* process, the aforementioned benefits suggest that FTC actions should promote industry members' participation in SSOs.

B. The Benefits of Standardization and SEPs

It is impossible to discuss the concepts of standardization or SEPs without noting the many benefits for consumers and patent holders. The benefits most apparent to consumers involve product interoperability and decreased costs. Standardization helps consumers by ensuring that products and technologies will work together seamlessly and reliably.[28] Standards also benefit consumers by spurring both horizontal competition and vertical efficiencies.[29] By providing competing firms at the same level of the market a standard upon which to base their products, standardization spurs horizontal competition because it enables these firms to compete for consumers by offering new and innovative products or features that are compatible with current technologies and other products that consumers demand.[30] Moreover, standards allow consumers to switch between these products without substantial (if any) switching

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26. For instance, the articles cited throughout this Note base their analyses on standardization via the formal SSO process.

27. *See infra* Parts III.B.2–III.B.3.

28. *See* Deborah L. Feinstein & Robert Skitol, Moderators, *Economists' Roundtable on Hot Patent-Related Antitrust Issues*, 27-SUM ANTITRUST 10, 11 (2013) [hereinafter *Economists' Roundtable*] ("[S]tandards are generally thought to be efficiency enhancing. Interoperability among different components within a larger system or among various types of hardware and software benefits consumers.").

29. *See* Hillel, *supra* note 2, at ¶ 8 ("After the standard is selected, however, competition is redirected to the downstream product markets, as firms adopt the chosen specification and develop competitive niches for their products. In turn, consumers benefit through increased choice, enhanced quality, and lower prices.").

30. *Id.* at ¶ 6; Renata Hesse, Deputy Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, Remarks as Prepared for the ITU-T Patent Roundtable: Six "Small" Proposals for SSOs Before Lunch (Oct. 10, 2012), at 3.

costs,[31] which spurs additional price competition between firms.[32] Consumers also benefit from the vertical efficiencies that standardization creates. Standardization allows firms to acquire necessary, standardized inputs, which permits firms to specialize in their relevant markets. Specialization allows a firm to operate at a single stage of the supply chain, instead of requiring a firm to operate at multiple levels, which benefits consumers by enabling a firm to focus its efforts and lower its costs.[33]

Substantial SEP-related benefits also accrue to patent holders. Selection as an industry standard increases the value of a patent and ensures substantial licensing fees.[34] Firms also recognize consumer-based benefits from selection as the standard, which include "increased demand for [their] products, advantages flowing from familiarity with the contributed technology, potentially . . . shorter development lead times, and improved compatibility with proprietary products using the standard."[35] Lastly, as discussed above, there are additional benefits to companies and consumers when standardization occurs via the formal SSO process as compared to via *de facto* standardization; these include avoiding costly "patent wars" and hastening the adoption of a standard, which

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31. Switching costs are faced by consumers when they seek to switch from their current product choice to that provided by a competitor, thereby "limit[ing] the effectiveness of competition . . . [and] enabling a provider to charge a higher price." Barbara van Schewick, *Network Neutrality and Quality of Service: What a Nondiscrimination Rule Should Look Like*, 67 STAN. L. REV. 1, 92–93 (2015). In technology markets, switching costs include capital costs (such as acquisition and installation costs or cancellation fees from the initial product), search and integration costs, and any loss to compatibility with other products.

32. Research in Motion Ltd. v. Motorola, Inc., 644 F. Supp. 2d. 788, 790 (N.D. Tex. 2008); Amundson, *supra* note 1, at 91.

33. Hillel, supra note 2, at ¶ 6.

34. *See Economists' Roundtable*, *supra* note 28, at 11; 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 5 (2013) [hereinafter DOJ/PTO POLICY STATEMENT] ("[P]atent holders that also sell products and services related to the standard benefit from expanded marketing opportunities, and patent holders that focus on licensing their inventions benefit from expanded sources of revenues. These incentives encourage patent holders to contribute their best technology to the standardization process.").

35. *Standard Essential Patent Disputes and Antitrust Law: Hearing Before the Subcomm. on Antitrust, Competition Policy and Consumer Rights of the S. Comm. on the Judiciary*, 113th Cong. 4 n.11 (2013) (statement of Suzanne Munck, Chief Counsel for Intell. Prop. & Deputy Dir. of the Office of Policy Planning, Fed. Trade Comm'n).

promotes quicker entry of competing and complementary products into the market.[36]

As discussed in more detail in Part IV.C, there are also legitimate reasons that the holder of a FRAND-encumbered SEP might seek an injunction and associated benefits that may result from seeking an injunction. Most notably, the ability to seek injunctions incentivizes SSO participation[37] and helps assure that patent holders recognize a sufficient return on their patent to incentivize its innovation.[38] Any legal action, and antitrust cases in particular, involving SEPs should be wary of impeding these benefits.

C. The Perceived Problems of SEPs

Many argue that standardization can have notable costs to competition and consumers. The most prominent harm, and the one relevant to this Note,[39] is known as patent hold-up. Hold-up occurs when the owner of an SEP seeks to exploit an industry's commitment to using that patent, such as by charging excessive royalties or by seeking to exclude competitors from using the patent, which in this context equates to exclusion from the market as a whole.[40] Hold-up is possible because of the substantial "shifting costs" that would be faced by companies who implement the standard.[41] Shifting costs, *inter alia*, are those related to the abandonment of a product design when licensing an SEP becomes economically unfeasible,[42] searching for alternative technology to fill the role of the abandoned SEP,[43] or any harm to a company's goodwill that results when its products are delayed coming to market (which can arise from having to search for a comparable technology) or when a

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36. *See supra* notes 20–25.

37. *See* Dorsey, *supra* note 8, at 997–98.

38. *See generally* Paul M. Schoenhard, *Who Took My IP?—Defending the Availability of Injunctive Relief for Patent Owners*, 16 TEX INTELL. PROP. L.J. 187, Part III.B (2008) ("[T] he patent system "promotes" progress by offering an incentive for these investments—exclusive rights—an incentive that is only strengthened when the exclusive right-holder may enjoin others.").

39. Some of the argued costs of standardization not expressly discussed in this Note include facilitating collusion and decreasing output. Allied Tube & Conduit Corp. v. Indian Head, Inc., 486 U.S. 492, 500 (1988) ("Agreement on a product standard is, after all, implicitly an agreement not to manufacture, distribute, or purchase certain types of products.").

40. Amundson, *supra* note 1, at 92.

41. *Standard Essential Patent Disputes and Antitrust Law*, *supra* note 5, at 4–5.

42. *Id.* at 5.

43. *Id.*

product does not have the promised or expected functionality and interoperability.[44] "High switching costs combined with the threat of an exclusion order could allow a patentee to obtain unreasonable licensing terms . . . not because its invention is valuable, but because implementers are locked in to practicing the standard."[45]

Hold-up harms consumers through increased product prices, as a manufacturer may be forced to pay the inflated royalty and pass the cost to consumers, and decreased product choice, as a manufacturer may choose to abandon development of a product implementing the standard.[46] These costs may make it impossible for a company to switch technologies or patents and still create and successfully market its product.

Hold-up, or the threat thereof, can also cause broader, more indirect harms to product manufacturers and the industry as a whole. In particular, it can serve as a barrier to entry and can deter a company's innovation efforts. Since attaining a license for an SEP may be necessary to compete, standardization itself may serve as a barrier to entry into any market that requires use of that SEP.[47]

Furthermore, the risk of an infringement lawsuit can deter innovation—and so, too, can the desire to avoid wasting resources on developing a competing or complementary product for which the company cannot attain an SEP license necessary for full functionality and interoperability.[48] The sum of these costs reduces the value of participating in the SSO standardization process, undermining the benefits of standardization.[49] Hold-up, therefore, increases costs and uncertainty for companies in a given industry and for consumers of those products "by breaking the connection between the value of an invention and its reward—a connection that is the cornerstone of the patent system."[50]

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44. Brief of Amicus Curiae Federal Trade Commission at 5, Apple, Inc. v. Motorola, Inc., 757 F.3d 1286 (Fed. Cir. 2014) (Nos. 2012-1548, 2012-1549).

45. Tony V. Pezzano & Jeffrey M. Telep, *Latest Developments on Injunctive Relief for Infringement of FRAND-Encumbered SEPS: Part II*, 26 NO. 3 INTELL. PROP. & TECH. L.J. 18, 18 (2014).

46. *Id*; *See* DOJ/PTO POLICY STATEMENT, *supra* note 34, at 4.

47. Helen H. Ji, Note, *District Court Versus the USITC: Considering Exclusionary Relief for F/RAND-Encumbered Standard-Essential Patents*, 29 MICH. TELECOMM. & TECH. L. REV. 169, 175 (2014).

48. *See* DOJ/PTO POLICY STATEMENT, *supra* note 34, at 4.

49. Brief of Amicus Curiae, *supra* note 44, at 5.

50. *Id.*

D. FRAND and Other Licensing Commitments

To try to counteract the possibility of hold-up, "SSOs typically have rules for the participants in the standard-setting process that require the participants to state before standard adoption whether they own any patents necessarily infringed by someone implementing the prospective standard."[51] In addition to requiring disclosure of patents relevant to an existing or potential standard, these rules also require that a member possessing such a patent agree either (1) to grant royalty-free licenses to any person that would implement the standard or (2) to license the patent to any user on FRAND terms.[52] "It is well understood that the[se] commitments can help minimize the risk of patent hold-up."[53] In particular, if a patentee refuses to agree to these terms, an SSO may choose to use a different patent within the standard.[54]

The licensing commitments created during the standardization process are solely creations of contract law. Patents give their holders the inherent right to exclude others from using the patented invention.[55] It is only by way of the agreement between the patent holder and the SSO that this inherent right to seek an injunction is limited.[56]

However, patent holders do not always abide by their licensing commitments and may bring lawsuits seeking higher royalties and licensing fees, and injunctions to exclude companies

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51. Amundson, *supra* note 1, at 93.

52. *Id.*

53. Wright, *supra* note 11, at 795.

54. *See* Ramirez, SEPs and Licensing, *supra* note 5, at *3.

55. *See supra* note 6.

56. *See e.g.*, Microsoft Corp. v. Motorola, Inc., 696 F.3d 872, 885 (9th Cir. 2012) ("Courts should give effect to freely made contractual agreements. Motorola made promises to the [SSO] to license its [SEPs] worldwide to all comers."); Maureen K. Ohlhausen, Comm'r, Fed. Trade Comm'n, Address at the Second Annual GCR Live Conference: Antitrust Enforcement in China–What Next? (Sept. 16, 2014) [hereinafter Ohlhausen, Antitrust Enforcement in China], in 2014 WL 4658335, at *4 ("The FTC placed serious restrictions on the ability of holders of [SEPs] to seek injunctions, which is a critical intellectual property right . . . with very little, if any, evidence that the patent holder agreed to waive this right when it participated in the [SSO]."); Keith N. Hylton, *A Unified Framework for Competition Policy and Innovation Policy*, 22 TEX. INTELL. PROP. L.J. 163, 177 (2014) ("The decision to enforce a patent through seeking an injunction has historically been a matter of patent law. . . . The FRAND commitment layers a contractual obligation on top of this procedure. . . . The United States enforcement authorities and the European Commission adopt the view that a FRAND commitment is equivalent to a waiver of the right to seek an injunction. This is an example of a phantom contractual obligation . . .").

from using their SEPs.[57] The remainder of this Note is focused on holders of FRAND-encumbered SEPs that do not abide by their licensing commitments and instead seek injunctions against the use of their patents.

III. CAUSES OF ACTION AGAINST THE HOLDER OF A FRAND-ENCUMBERED SEP SEEKING AN INJUNCTION

This Note explores the application of Section 5 of the FTC Act to holders of FRAND-encumbered SEPs who seek injunctions in order to prevent anticompetitive harms.[58] But two other causes of action—breach of contract and Section 2 of the Sherman Act—have been used to enforce FRAND obligations, and discussing them is necessary for understanding Section 5.

A. Breach of Contract Claims[59]

The ability of a patent holder to seek an injunction to prevent patent infringement is typically a concern of patent law, and "[t]he FRAND commitment layers a contractual obligation on top" of the standard patent procedure.[60] As discussed above, the patent holder and the SSO agree via contract that the patent holder will license on FRAND terms (or grant a royalty-free license); without this agreement, the patent holder has no obligation to provide such licensing terms.[61] In addition to the traditional breach of contract

57. *E.g.*, Pezzano, *supra* note 45, at 20–31 (outlining federal court cases where a patent holder bound by FRAND commitments is seeking to exclude a potential licensee); Ohlhausen, Recent Developments, *supra* note 10, at *2–*3 (discussing major FTC enforcement actions of the same).

58. The most commonly cited competitive harms are higher prices, consumer deception, lower product quality, less consumer choice, and decreased incentives to innovation. *See* ANDREW I. GAVIL, WILLIAM E. KOVACIC & JONATHAN B. BAKER, ANTITRUST LAW IN PERSPECTIVE: CASES, CONCEPTS AND PROBLEMS IN COMPETITION POLICY 41 (2d ed. 2008).

59. Related equitable doctrines may also be appropriate, such as contract estoppel. *See* Research in Motion Ltd. v. Motorola, Inc., 644 F. Supp. 2d 788, 791 (N.D. Tex. 2008) ("RIM also asserts a claim against Motorola under a theory of promissory estoppel."); Bruce H. Kobayashi & Joshua D. Wright, Comments & Replies, *The Limits of Antitrust and Patent Hold-Up: A Reply to Cary, et al.*, 78 ANTITRUST L.J. 505, 511 (2012) ("[R]emedies for breach of contract, or preventing the enforcement of the patent through estoppel, waiver, or other equitable doctrines, can serve to optimally deter undesirable patent holdup . . . ").

60. Hylton, *supra* note 56, at 177.

61. For instance, the court in *Apple, Inc. v. Motorola Mobility, Inc.* found that a "combination of the policies and bylaws of the [SSOs], Motorola's membership in those organizations and Motorola's assurances that it would license

theory—whereby a contracting party agrees to set terms and subsequently fails to abide by those terms[62]—"theories of breach of the [F]RAND commitment implicate the duty of good faith and fair dealing."[63] A breach of this duty may include evading the spirit of the bargain or willfully failing to fully perform.[64]

Courts' analyses of whether the act of seeking an injunction constitutes a breach of contract have focused on whether a commitment to license a patent on FRAND terms implies an agreement by the patent holder not to seek an injunction. The argument that such an agreement is implied presupposes that a FRAND commitment is a promise by a patent holder to provide a license at the FRAND rate to anyone seeking to practice the patent, which implicitly means that the patent holder cannot seek an injunction against anyone who wants to practice that patent.[65] However, the critics of this position have affirmed that such an interpretation creates a "phantom contractual obligation . . . that is not an implication of either contract law or patent law."[66] According to these critics, the FRAND obligation should be confined to what is expressly stated within the contract, and should not be used to create new obligations that are contrary to the deep-rooted principle of a patent holder's right to exclude; rather, only when a patent holder has clearly agreed to forego the right to an injunction should courts find that a FRAND commitment is an agreement to forego

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its essential patents on [FRAND] terms constitute contractual agreements." 886 F. Supp. 2d 1061, 1083 (W.D. Wis. 2012).

62. *See* Microsoft Corp. v. Motorola, Inc., 963 F. Supp.2d 1176, 1189–90 (W.D. Wash. 2013).

63. *Id.* at 1183.

64. *Id.* at 1184–85 (quoting RESTATEMENT (SECOND) OF CONTRACTS § 205 cmt. d (1981)) ("It may violate the duty of good faith and fair dealing to, for example, (1) evade the spirit of a bargain; (2) willfully render imperfect performance; (3) interfere with or fail to cooperate in the other party's performance; (4) abuse discretion granted under the contract; or (5) perform the contract without diligence.").

65. *Cf.* Hylton, *supra* note 56, at 177 ("The United States enforcement authorities and the European Commission adopt the view that a FRAND commitment is equivalent to a waiver of the right to seek an injunction.").

66. *Id.*

seeking an injunction.[67] Federal courts have issued decisions on both sides of the debate.[68]

B. Enforcement of Licensing Agreements under the Antitrust Laws

1. A Few Basic Principles About the Intersection of IP and Antitrust Law

While both IP and antitrust share the goal of increasing innovation to benefit consumers,[69] these bodies of law sometimes clash. "The primary economic aim of competition law is to prevent the acquisition or exercise of [monopoly] power," or the ability of a market participant to raise the price above the competitive level.[70] While "antitrust doctrine does not presume the existence of market power from the mere presence of an intellectual property right[,] . . . specific activities involving intellectual property rights [can] create [monopoly] power," producing a conflict between IP law and antitrust law.[71] Incorporating a patent into an industry standard increases the risks of monopolization since companies and consumers may be locked into using that particular patent. "This lock-in confers market power on the owners of the incorporated patents," and these patent holders "may seek to take advantage of the market power that standardization of their patented technology creates by engaging in hold-up" and requesting inflated licensing

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67. *See* Ohlhausen, Antitrust Enforcement in China, *supra* note 56, at *4 ("The FTC placed serious restrictions on the ability of holders of [SEPs] to seek injunctions . . . . [T]he FTC did this in each case with very little, if any, evidence that the patent holder agreed to waive this right when it participated in the standard-setting process.").

68. *Compare* Microsoft Corp. v. Motorola, Inc., 963 F. Supp. 2d 1176, 1186–87 (W.D. Wash. 2013) ("[T]he court notes that the terms of the RAND commitment obligate Motorola to license its SEPS on RAND terms . . . . The specific terms of the ensuing RAND license are not, however, determined by the RAND commitment."), *with* Realtek Semiconductor Corp. v. LSI Corp., 946 F. Supp. 2d 998, 1006 (N.D. Cal. 2013) ("[T]he act of seeking injunctive relief . . . is inherently inconsistent and a breach of defendants' promise to license the patents on RAND terms.").

69. PROMOTING INNOVATION, *supra* note 4, at 2 (The two bodies of law "work together to bring innovation to consumers: antitrust laws protect robust competition in the marketplace, while intellectual property laws protect the ability to earn a return on the investments necessary to innovate. Both spur completion among rivals to be the first to enter the marketplace . . . .").

70. GAVIL, *supra* note 58, at 17.

71. PROMOTING INNOVATION, *supra* note 4, at 2.

fees.[72] The possibility of monopoly power being used in such a fashion is why patent holders that have sought an injunction while under a FRAND commitment have received antitrust scrutiny.

When such scrutiny occurs, a core principle of antitrust enforcement in the IP realm is that antitrust agencies and courts are to apply the same general principles to conduct involving IP that are applied to conduct involving any other form of property.[73] This means that when IP rights are involved in an antitrust lawsuit, they receive no special presumptions or relaxed burdens.[74] A benefit of this "parity approach" is that it ensures antitrust cases involving IP rights are analyzed in line with the economics of incentivizing new innovation without creating harm to consumers[75]—the key purposes of antitrust law.

At the same time, the Supreme Court has stated that "[a]ntitrust analysis must always be attuned to the particular structure and circumstances of the industry at issue."[76] For instance, antitrust analysis of IP rights must recognize that liability for a mere refusal to deal "would restrict the patent holder's ability to exercise a core part of the patent—the right to exclude."[77] Antitrust enforcement must be careful not to eliminate the benefits of patent law and standardization. "Condemning efficient activity involving intellectual property rights could undermine that incentive to innovate, and thus slow the engine that drives much economic growth in the United States"[78]—an outcome contrary to the goals of antitrust law. The Supreme Court has also indicated that agencies and courts should

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72. Renata B. Hesse, Deputy Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, Address at the Global Competition Review Law Leaders' Forum: IP, Antitrust, and Looking Back on the Last Four Years (Feb. 8, 2013) [hereinafter Hesse, Looking Back], *in* 2013 WL 582334, at *7.

73. Joshua D. Wright, Comm'r, Fed. Trade Comm'n, Address at The 2014 Milton Handler Lecture: "Antitrust in the 21st Century": Does the FTC Have a New IP Agenda? (Mar. 11, 2014) [hereinafter Wright, Does the FTC Have a New IP Agenda], *in* 2014 WL 986706, at *1 (quoting U.S. DEP'T OF JUSTICE & THE FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 2.1 (1995)).

74. *Id.* at *2.

75. *Id.* ("[A] symmetrical approach to IPRs and real property rights also facilitates recognition of the broader proposition that complex questions involving IPRs and antitrust are properly understood through the lens of the economics . . . it is now well understood that an effective legal regime defining and protecting property rights is essential to a well-functioning competitive economy.").

76. Verizon Commc'ns, Inc. v. Law Offices of Curtis V. Trinko, LLP, 540 U.S. 398, 411 (2004).

77. PROMOTING INNOVATION, *supra* note 4, at 6.

78. *Id.* at 2.

be wary of over-enforcement of the antitrust laws to the detriment of consumers.[79] Where an alternate framework exists that is better suited to effectively address the competitive concerns, antitrust laws, if applied at all, should be applied cautiously.[80]

The most important federal antitrust laws that regulate single-firm conduct are Section 2 of the Sherman Act[81] and Section 5 of the FTC Act.[82]

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79. *Trinko*, 540 U.S. at 414. In particular, the Supreme Court was concerned with deterring procompetitive conduct and the resultant benefits, such as lower prices and product innovation, as well as creating a new layer of litigation routes for parties to pursue in already congested courts.

80. *Id.* at 411–12.

81. Some have argued that Section 1 of the Sherman Act, 15 U.S.C. § 1 (2012)—which prohibits combinations and agreements between entities that have the effect of restraining competition—is applicable as well, stating that SSO formation is an anticompetitive combination of competitors. *See Economists Roundtable*, *supra* 28, at 16. However, not every agreement between competitors or other industry participants is anticompetitive. GAVIL, *supra* note 58, at 88. "Partnerships, joint ventures, and strategic alliances among rivals are ubiquitous and rarely present serious competitive concerns," but rather "often provide a significant source of competitive vigor and product and service innovation." *Id.* This describes SSOs quite accurately—SSOs are collaborative organizations that allow for product innovation and lower prices. Therefore, antitrust liability for SSO participation would eliminate a source of substantial economic vigor and innovation. Antitrust lawyers and economists have embraced this view. *Economists' Roundtable*, *supra* note 28, at 16. Additionally, in instances where an SSO member engages in the unilateral act of seeking an injunction, application of Section 1 is not appropriate. Apple, Inc. v. Samsung Electronics Co., Ltd., No. 11-cv-01846-LHK, 2011 WL 4948567, at *5 (N.D. Cal. Oct. 18, 2011) ("An allegation that Samsung unilaterally subverted a collaborative standard-setting process in order to restrain trade is not the equivalent of an allegation that Samsung contracted with, combined with, or conspired with other members of the collaborative body to restrain trade.").

82. Most states have adopted their own antitrust statutes. The majority of these statutes are modeled after the federal statutes. *E.g.*, Michael D. Ridberg & Elgin E. Monés, *The Maryland Antitrust Act: An Overlooked Statute*, 4 BUS. L. BRIEF 27 (2007) ("The MAA is analogous to the federal statute . . . The General Assembly intended the MAA to complement federal antitrust laws regarding restraints of trade and other anticompetitive conduct."); NEW YORK STATE OFFICE OF THE ATTORNEY GENERAL, ANTITRUST ENFORCEMENT, http://www.ag.ny.gov/antitrust/antitrust-enforcement (last visited Dec. 23, 2014) ("Through amendment and interpretation the [New York] Donnelly Act has come to follow closely the federal Sherman Act."). Due to this similarity, and the fact that the focus of this Note is on Section 5 of the FTC Act, state statutes will not be discussed in depth in this Note.

2. Sherman Act Section 2 Enforcement Against Holders of FRAND-Encumbered SEPs

Section 2 of the Sherman Act prohibits forming illegal monopolies and engaging in monopolistic behavior that harms competition.[83] Mere possession of monopoly power is not sufficient to constitute a violation of Section 2; such violation requires both the possession of monopoly power[84] *and* "the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historical accident."[85] This conduct must have an anticompetitive effect; the relevant harm is to competition and industry generally, not to any individual competitor(s).[86] The key Section 2 question in this context is, therefore, whether a patent holder's request for an injunction to prevent infringement of a FRAND-encumbered SEP excludes competition, thereby making the possession and acquisition of monopoly power unlawful.[87]

Where federal courts have found that the request for an injunction to protect a FRAND-encumbered SEP constitutes a violation of Section 2, they have done so on very narrow and limited grounds, requiring that multiple, specific conditions be satisfied. For instance, in *Broadcom Corp. v. Qualcomm Inc.*[88] the Court of Appeals for the Third Circuit held that "(1) in a consensus-oriented private standard-setting environment, (2) a patent holder's intentionally false promise to license essential proprietary technology on FRAND terms, (3) coupled with an [SSO's] reliance on that promise when including the technology in a standard, and (4) the patent holder's subsequent breach of that promise is actionable anticompetitive conduct."[89]

83. 15 U.S.C. § 2 (2012).

84. Monopoly power is the ability of a company to control prices or to unreasonably exclude competition. United States v. E.I. du Pont de Nemours & Co., 351 U.S. 377, 389 (1956). The possession of monopoly power can be proven directly by showing either of these factors, or it can be proven circumstantially by examining market share and market structure; in effect, the presence of a high market share can serve as a surrogate for monopoly power. United States v. Microsoft Corp., 253 F.3d 34, 51 (D.C. Cir. 2001).

85. Rambus, Inc. v. F.T.C., 522 F.3d 456, 463 (D.C. Cir. 2008) (quoting *Trinko*, 540 U.S. at 407).

86. *Id.* For example, charging a high price is not illegal by itself; rather it is illegal only if the ability to charge such prices is the result of creating a monopoly via anticompetitive means. *Id.* at 464.

87. *Id.* at 463.

88. 501 F.3d 297 (3d. Cir. 2007).

89. *Id.* at 314 (finding antitrust liability).

One year later, the Court of Appeals for the D.C. Circuit in *Rambus, Inc. v. F.T.C.*[90] agreed with the court in *Broadcom* that an intentionally false promise by a firm coupled with an SSO's reliance on that promise established a cause of action.[91] However, the D.C. Circuit distinguished the cases and found that Rambus did not engage in such anticompetitive conduct.[92] The D.C. Circuit ultimately concluded that the language of the Rambus-SSO agreement should determine the extent of an SEP holder's obligations and whether a patent holder breached its licensing commitments.[93]

In *Apple, Inc. v. Motorola, Inc.*,[94] the Federal Circuit held that Motorola was not entitled to an injunction against Apple based on the facts presented.[95] The Federal Circuit agreed that an injunction is not unavailable *per se* for the holder of a FRAND-encumbered SEP, but determined that the instances where an injunction is allowed are narrow.[96] The allowance of an injunction in the case turned on whether Apple, the alleged infringer, was refusing to engage in FRAND negotiations. The majority held that Apple was not refusing and thus the patent holder was not entitled to an injunction, while Judge Rader in dissent found that Apple had the "posture [of] an unwilling licensee."[97]

While Section 2 may, in theory, offer a viable method of determining whether the holder of a FRAND-encumbered SEP is entitled to seek an injunction, it has also been shown to possess serious drawbacks because it has created perverse incentives and uncertainty for patent holders participating in SSOs.[98] In each case, a finding of liability was premised on very narrow grounds—requiring the breach of an intentionally false promise by a patent holder to an SSO, on which the SSO detrimentally relied. This raises questions about what the outcome would be if the facts were slightly different, such as if there was no FRAND commitment, if standardization was *de facto*, if the relevant patent was not actually

90. 522 F.3d 456 (D.C. Cir. 2008).

91. *Id.* at 466.

92. *Id.* at 467.

93. *Id.* at 469.

94. 757 F.3d 1286 (Fed. Cir. 2014).

95. *Id.* at 1332.

96. *Id.* ("To the extent that the district court applied a *per se* rule that injunctions are unavailable for SEPs, it erred . . . [A]n injunction may be justified where an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiations to the same effect.").

97. *Id.* at 1332 (Rader, C.J., dissenting).

98. *See* Hillel, *supra* note 2, at ¶¶ 45–51.

an SEP, or if there was no intentional misrepresentation. Whether Section 2 should be used in this context is a live question; however, it is one left to another article. The primary focus of this Note is on the appropriateness of another antitrust remedy—Section 5 of the FTC Act.

3. Section 5 Enforcement Against Holders of FRAND-Encumbered SEPs

In essence, Section 5 is broader than Section 2 of the Sherman Act, and a violation of Section 2 is not needed to trigger a violation of Section 5.[99] Section 5 of the FTC Act makes illegal any "unfair methods of competition."[100] "Unfair competitive practices proscribed by Section 5 are not limited to those likely to have anticompetitive consequences after the manner of the antitrust laws."[101] Section 5 "enables the Commission to reach conduct prohibited by the other antitrust laws, conduct that infringes the spirit of these laws, and even some conduct that violates neither the letter nor the spirit of the other statutes."[102]

Enforcement under Section 5 possesses some similarities to enforcement under Section 2 of the Sherman Act. Most notably, the relevant harm is harm to competition.[103] "It is not sufficient that the business conduct merely injures small business, violates public morals, or otherwise contravenes public policy based upon some set of non-economic considerations."[104] This means the FTC must consider the same factors that a court would consider under Section 2, which include analysis of anticompetitive harms, procompetitive justifications, and less-restrictive alternatives.

Unlike Sherman Act Section 2 claims, private parties cannot bring FTC Act Section 5 claims; only the FTC may bring an unfair

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99. William E. Kovacic & Marc Winerman, *Competition Policy and the Application of Section 5 of the Federal Trade Commission Act*, 76 ANTITRUST L.J. 929, 930 (2010).

100. 15 U.S.C. § 45(a)(1) (2012).

101. J. Thomas Rosch, *Patent Law and Antitrust Law: Neither Friend Nor Foe, but Business Partners*, 13 SEDONA CONF. J. 95, 95 (2012) (quoting F.T.C. v. Sperry & Hutchinson, Co., 405 U.S. 233, 244 (1972) (internal quotations omitted)).

102. Kovacic, *supra* note 99, at 937.

103. *See* Jan M. Rybnicek & Joshua D. Wright, *Defining Section 5 of the FTC Act: The Failure of the Common Law Method and the Case for Formal Agency Guidelines*, 21 GEO. MASON L. REV. 1287, 1290 (2014).

104. *Id.* ("Commentators thus appear to agree that the economic harms against which Section 5 is designed to protect consumers are the same harms, in economic terms, as those protected by the traditional antitrust laws.").

method of competition claim under Section 5.[105] Further, Section 5 lacks any requirement that the FTC consider its prior enforcement decisions as binding precedent.[106] "There is no language in the Commission's authorizing statute, its internal rules and procedures, or even in Supreme Court precedent [that] require[s] the Commission to follow its own precedent," which includes its own consent decrees.[107]

The following cases are a compilation of recent FTC actions against holders of FRAND-encumbered SEPs that either sought an injunction or demanded higher (possibly non-FRAND) royalties by threatening an injunction. The following FTC cases—*In the Matter of Dell Computer Corp.*, *In the Matter of Negotiated Data Solutions (N-Data)*, *In the Matter of Robert Bosch GmbH*, *In the Matter of Motorola Mobility, LLC and Google, Inc.*, and *Rambus, Inc. v. F.T.C.*—will reveal the flaws that have arisen with Section 5 enforcement in this context. In sum, these cases will show that there is insufficient evidence of anticompetitive effect and that there is a notable lack of clarity and consistency in the FTC's decisions.

In *In the Matter of Dell Computer Corp.*,[108] the FTC alleged that, in responding to an SSO inquiry, Dell had failed to disclose a patent relevant to the standard, and that the SSO "would have implemented a different non-proprietary design had it been informed of the patent conflict during the certification process."[109] Dell and the FTC entered into a consent order, "prohibit[ing] Dell from enforcing its . . . patent against any firm using the patented technology to implement" the standard.[110]

There are several problems with the FTC's findings. First, as Commissioner Azcuenaga notes in her dissenting opinion, the FTC's findings "give rise to troubling implications about the duty of care in the standards-setting process."[111] The FTC has not alleged or proven that Dell intentionally and knowingly misled the SSO by

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105. *Id.* at 1306–07.

106. *Id.* at 1312.

107. *Id.* This does not mean that the FTC is free to ignore precedent from courts with appellate authority over FTC decisions. However, as will be discussed in more detail in subsequent sections of this Note, the complex and time-consuming administrative adjudication process has led to the result that few cases make it past the Commission level, with a large number of cases being settled by consent order. *Id.* at 1307.

108. 121 F.T.C. 616 (1996).

109. *Id.* at 617, 624.

110. *Id.* at 633 (Azcuenaga, Comm'r, dissenting).

111. *Id.* at 627.

failing to make a necessary disclosure.[112] Rather, the Commission's findings were based on "constructive knowledge [and] unsubstantiated inferences."[113] Establishing liability on the grounds that an agent of Dell must have (constructively) known about the patent because at least one person at the company knew about the patent creates a "strict liability standard, under which a company would place its intellectual property at risk simply by participating in the standards-setting process."[114] This "effectively imposes a duty of disclosure on Dell beyond what [the SSO] required."[115] Such a standard does not provide sufficient clarity to entities that hold FRAND-encumbered SEPs or that seek to join an SSO.

Second, the FTC failed to prove that Dell had unlawfully acquired or extended monopoly power.[116] "[A]s appears from the allegations to be the case, computer producers could readily switch to [product] designs that do not incorporate Dell's technology."[117] Therefore it is uncertain whether Dell engaged in anticompetitive conduct to create or maintain monopoly power, or if Dell even possessed monopoly power. The FTC's decision creates uncertainty as to what conduct the FTC considers to be anticompetitive. The decision ultimately posits "the danger that voting on a standard might result in the loss of a company's intellectual property rights may dissuade some firms from participating in the standards-setting process,"[118] which would undermine the substantial benefits of SSOs.

In the Matter of Negotiated Data Solutions ("*N-Data*")[119] further expanded the scope of Section 5 liability without clearly identifying either the impermissible conduct or the competitive harm that resulted. The Defendant, N-Data, had received an assignment of patents from Vertical Networks, Inc. ("Vertical"),[120] which had obtained the patents from its predecessor, National Semiconductor ("National").[121] National had made licensing commitments to an SSO to license its SEP for a one-time royalty fee of $1000,[122] and the "agreement between Vertical and National

112. *Id.* at 629.
113. *Id.* at 630.
114. *Id.*
115. *Id.*
116. *Id.* at 631–32.
117. *Id.* at 632.
118. *Id.* at 633.
119. File 051-0094, 2008 WL 258308 (F.T.C. 2008).
120. *Id.* at *4.
121. *Id.* at *1.
122. *Id.* at *2.

stated that assignment is subject to any existing licenses."[123] However, Vertical later sought to alter the terms of National's commitments to the SSO, and contacted the SSO offering to license the SEP on FRAND terms.[124] At that time, several companies using the standard sought to enter into licenses for the one-time fee of $1000, but Vertical rejected the offers and initiated legal actions against companies that refused to pay a FRAND royalty.[125] Subsequently, Vertical assigned the patent at issue to N-Data.[126] The FTC alleged that these actions threatened to increase royalties paid by companies wishing to practice the standard, to increase prices paid by consumers, and to decrease participation in and reliance upon standardized products and technology,[127] which constituted both an unfair method of competition and an unfair act or practice.[128] N-Data and the FTC entered into a consent order "prohibit[ing] N-Data from enforcing the Relevant Patents . . . unless it has first offered to license them on terms specified by the order."[129]

The first problem with the FTC's complaint and consent order against N-Data is that it fails to specify what actions constituted an unfair method of competition, as opposed to an unfair act or practice.[130] The complaint alleged N-Data's single conduct to be both an unfair method of competition and an unfair act or practice, but "does not integrate the two theories of liability" and failed to "specify the distinctive contributions of each theory to the prosecution of the matter."[131] The unfair acts and practices complaint is so broad that "it is not evident what reasoning . . .

123. *Id.* at *4 (quoting the patent assignment agreement (internal quotations omitted)).

124. *Id.*

125. *Id.*

126. *Id.*

127. *Id.* at *5.

128. *Id.* The FTC has a two-sided mission: consumer protection and promoting competition. THE FED. TRADE COMM'N: WHAT WE DO, http://www.ftc.gov/about-ftc/what-we-do (last visited Dec. 24, 2014). An "unfair act or practice" is considered to be a violation of the FTC's consumer protection statute and mandate, while an "unfair method of competition" is considered a violation of the antitrust enforcement mandate. THE FED. TRADE COMM'N: ENFORCEMENT AUTHORITY, http://www.ftc.gov/about-ftc/what-we-do/enforcement-authority (last visited Dec. 24, 2014). An FTC complaint that alleges both an unfair act or practice and an unfair method of competition is seeking enforcement of both the consumer protection provision and the antitrust provision.

129. *N-Data*, 2008 WL 258308, at *35. The terms of that license were based on the initial commitment by National to license the patent for a one-time payment of $1000. *Id.* at *2, *35.

130. *Id.* at *24.

131. *Id.*

supports the parallel inclusion of the [unfair method of competition] claim."[132] "[T]here is no allegation that National engaged in improper or exclusionary conduct to induce [the SSO] to specify its NWay technology in the . . . standard."[133] The FTC has not identified a sufficient limiting principle for its unfair method of competition complaint.[134]

The second problem is a "substantial question as to whether N-Data enjoyed measurable market power, even with the adoption of the [SSO] standard."[135] In addition, "[t]he FTC ordinarily would not prosecute behavior whose adverse effects could readily be avoided by the potential victims."[136] Here, the SSOs have the ability to address patent hold-up and other potential competitive concerns, which they routinely exercise by implementing disclosure rules and requiring licensing agreements.[137] The SSO did not object to Vertical's request for increased royalties, but rather seems to have accepted the revised proposal.[138] Antitrust principles also require the FTC to balance any harms of a patent holder's action against the legitimate business justifications for that action and the consumer benefits resulting from undertaking that action.[139] There is no evidence that the court used such balancing in *N-Data*, and thus no evidence that Section 5 is being used to address any harm to competition.

In the Matter of Robert Bosch GmbH[140] serves as a prime example of the FTC's lack of consistency in its SEP enforcement. The case began as a merger review, but during the investigation the FTC found potential violations of licensing commitments made to the relevant SSO.[141] The company that Robert Bosch sought to

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132. *Id.*

133. *Id.* at *25.

134. *Id.* at *26.

135. *Id.*

136. *Id.*; *see also* Verizon Commc'ns, Inc. v. Law Offices of Curtis V. Trinko, LLP, 540 U.S. 398, 411 (2004) (noting that the Supreme Court believes antitrust enforcement should be undertaken sparingly where another regulating system is better suited to address the competitive concerns).

137. *Accord N-Data*, 2008 WL 258308, at *24–*25 (F.T.C. 2008) (Kovacic, Comm'r, dissenting & Majoras, Chairman, dissenting).

138. *Id.*

139. *See supra* notes 75–78 (discussing the role of antitrust in promoting conduct that is beneficial to competition and consumers).

140. File No. 121-0081, 2012 WL 5944820 (F.T.C. 2013).

141. *Id.* at *61 ("During its merger investigation, the Commission uncovered evidence that SPX holds certain potentia[l] [SEPs] . . . however, SPX continued to seek previously initiated injunction actions against competitors using those patents.").

acquire, SPX Service Solutions US LLC ("SPX"), held patents that were *potentially* necessary for implementing two industry standards.[142] The SSO's rules required members "to disclose any patents or patent applications that would be essential to the practice of a standard being developed, and to offer a license to such patents on either royalty-free or [FRAND] terms."[143] After adopting the standards, SPX issued letters to the SSO committing to its licensing terms; however, SPX subsequently brought injunctions against competitors that sought to use the standards.[144] A remedy for the breach of these licensing commitments was included by the FTC in the merger settlement, requiring Robert Bosch "to offer a royalty-free license to all potential implementers" of the standards.[145] If Robert Bosch did not agree to the SEP remedy, the company would not receive clearance to proceed with its merger.

Arguably, the most notable defect in the FTC's decision was that "the FTC used the leverage inherent in its gatekeeping function in the U.S. pre-merger notification regime to obtain concessions on issues unrelated to the merger itself."[146] The proposed merger and the licensing conduct presented different theories of harm, and the FTC failed to address them separately. This decision therefore opened the door for the FTC to "find collateral issues that it chooses to pursue under Section 5 and [to] press for resolution of those issues in conjunction with the merger review."[147]

Furthermore, the *Robert Bosch* decision departs from prior FTC decisions without providing any guidance, obscuring precisely what conduct the FTC identifies as being harmful to competition.[148] Notably, it is an "open question" whether the patents at issue in this case were even essential to practicing the standard.[149] There is also no evidence that SPX agreed to give up its right to seek an injunction.[150] Finding liability in this case is thus adding commitments beyond those to which the SSO members had agreed upon. *Robert Bosch* suggests that the FTC has entered into the

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142. *Id.* (emphasis added).

143. *Id.*

144. *Id.*

145. *Id.* at *62.

146. William E. Kovacic, *From Microsoft to Google: Intellectual Property, High Technology, and the Reorientation of U.S. Competition Policy and Practice*, 23 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 645, 651 (2013).

147. *Id.*

148. 2012 WL 5944820, at *28 (Ohlhausen, Comm'r, dissenting).

149. *Id.* at *28 n.13.

150. *Id.* (referencing SAE INT'L, TECHNICAL STANDARDS BD. GOVERNANCE POLICY § 1.13 (13th rev. 2013)).

business of "policing garden variety breach-of-contract and other business disputes between private parties"[151] and deeming them antitrust violations.

In the Matter of Motorola Mobility, LLC and Google, Inc.[152] is the FTC's most recent Section 5 complaint to allege that a patent holder breached its commitment to an SSO to license on FRAND terms by seeking injunctions against willing licensees.[153] The complaint alleges this conduct to be both an unfair method of competition and an unfair act or practice.[154] The FTC found that Motorola had made FRAND commitments enabling the use of its technology in the standard, and that manufacturers invested billions of dollars in reliance on these commitments to create standard-compliant products.[155] Upon its acquisition of Motorola Mobility, Google assumed these FRAND obligations, yet "continued Motorola's exclusionary campaign."[156] The FTC alleged that these actions deprived consumers of product choice, increased production costs (which would likely be passed on to consumers), and undermined the SSO process.[157] The settlement allows injunctive relief only in narrowly delineated circumstances.[158]

Motorola Mobility raises many of the same concerns found in *Robert Bosch*. "First, the Commission is offering ambiguous guidance to market participants."[159] The evidence does not reveal any clear promise by the SSO members to forego seeking an injunction.[160] Similarly, the SSO members did not appear to entertain any reasonable expectation "that SEP holders, including Google and Motorola, had waived their right to seek injunctions."[161] Finding liability in this case thus has the result of imposing commitments beyond those to which the SSO members agreed, and of policing them with antitrust laws. Finding liability for merely seeking an injunction, without evidence of deceptive conduct, also

151. *Id.*
152. File No. 121-0120, 2013 WL 124100 (F.T.C. 2013).
153. *Id.* at *1.
154. *Id.* at *5.
155. *Id.* at *3.
156. *Id.* at *4.
157. *Id.*
158. *Id.* at *9–*10.
159. *Id.* at *25. (Ohlhausen, Comm'r, dissenting).
160. *Id.* at *26. In fact, "[a]t least one of the SSOs . . . went so far as to explicitly reject an outright ban on injunctions." *Id.*
161. *Id.*

adds uncertainty by directly contradicting a federal court decision involving the SEPs at issue in this case.[162]

Furthermore, the alleged harm is "merely speculative consumer harm, at best."[163] "[T]he only possible, cognizable harm is the risk that the threat of an injunction may raise prices or reduce innovation."[164] Yet "[t]here is no compelling evidence that either type of harm exists in this matter, and it is far from certain that such harm is likely to occur in the future."[165] Even if such harm does occur, the sophisticated companies involved in the standardization process have the capability and resources to deal with such breaches of licensing commitments either on their own or through the SSO to which the commitments were made. In sum, the FTC has failed to identify meaningful limiting principles regarding what creates a Section 5 violation in this context and under what circumstances it will use its enforcement authority.

The last FTC decision to note is *Rambus*, discussed in Part III.B.2. *Rambus* began as an FTC administrative adjudication, but was appealed to the D.C. Circuit.[166] The FTC alleged that "Rambus, while participating in the standard-setting process, deceptively failed to disclose to the SSO the patent interests it held in four technologies that were standardized." [167] The FTC brought this Section 5 complaint based solely on a theory of Sherman Act Section 2 liability.[168] The D.C. Circuit reversed the FTC, finding "that the Commission failed to demonstrate that Rambus's conduct was exclusionary, and thus to establish its claim that Rambus unlawfully monopolized the relevant markets."[169] The court found that there was no Section 2 violation, and consequently, since the FTC's theory of harm was premised solely on a violation of Section 2, there could be no Section 5 violation.

IV. WHY THE FTC'S CURRENT USE OF SECTION 5 IS INAPPROPRIATE

Analysis of the FTC's cases against holders of FRAND-encumbered SEPs reveals notable inconsistencies. The cases outlined above do not provide guidance or transparency regarding

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162. *Id.* at *25–*26 (discussing Apple, Inc. v. Motorola Mobility, Inc., No. 11-cv-178-bbc, slip op. at 29 (W.D. Wis. Oct. 29, 2012)).

163. *Id.* at *26.

164. *Id.* at *26 n.22

165. *Id.*

166. Rambus, Inc. v. F.T.C., 522 F.3d 456, 461–62 (D.C. Cir. 2008).

167. *Id.* at 459.

168. *Id.* at 462.

169. *Id.* at 467.

what the FTC considers to be an unfair method of competition in the SEP context. Moreover, it is uncertain whether the alleged violations posed any harm to competition. By failing to properly articulate the theory of harm and the necessary limiting principles for Section 5 enforcement, the FTC's actions undermine the standard-setting process and risk causing harm to consumers, to innovation, and to competition generally.

The viability of other legal theories that address the legal issues surrounding patent hold-up without causing the harmful effects associated with Section 5 enforcement further weighs against the use of Section 5. Before the Commission brings additional Section 5 complaints against SEP holders who seek injunctions, it should "fully articulate its views about what constitutes an unfair method of competition, including the general parameters of unfair conduct and where Section 5 overlaps and does not overlap with [other] antitrust laws, and how the Commission will exercise its enforcement discretion." [170] The current process of FTC enforcement cannot satisfy this standard, so the FTC should issue a formal policy statement on enforcement against the holders of FRAND-encumbered SEPs that seek injunctions on the use of their patents.

A. The FTC Has Not Provided Clarity on What It Considers to Be An Unfair Method of Competition

Enforcement actions should be transparent and open. Parties should understand how the FTC analyzes conduct to determine its potentially anticompetitive effects.[171] As detailed in Part III.B.3, recent FTC cases in this context have failed to provide a clear answer as to what actions by a holder of a FRAND-encumbered SEP will constitute a Section 5 violation. For example, in *N-Data* there

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170. Robert Bosch GmbH, File No. 121-0081, 2012 WL 5944820, at *28 (F.T.C. 2013) (Ohlhausen, Comm'r, dissenting).

171. *See* Ohlhausen, Recent Developments, *supra* note 10, at *1 ("[T]he best way to navigate [the complex IP] terrain is to aspire to transparency, predictability, and fairness in all our actions at the FTC."); Hesse, Looking Back, *supra* note 72, at *5 (discussing the themes of "openness and visibility" and the importance of "dedication to good governance, which includes . . . increased openness, as well as division efforts to become a more efficient and effective organization. . . . By giving parties and their counsel a more accurate and up-to-date idea of how we analyze transactions and proposed remedies . . ."). It is no secret that the risk of liability due to legal uncertainty deters business activity, including beneficial activity. *E.g.*, Hillel, *supra* note 2, at ¶ 2, n.6–7 (stating the proposition and citing to Supreme Court case law, lower court case law, and academic articles that notice the problem).

was no allegation of any exclusionary, or even improper, conduct that would normally be considered necessary for an antitrust violation.[172] Additionally, in *Robert Bosch* it was uncertain whether the patent at issue was an SEP.[173] The *Google/Motorola* consent decree provided no evidence of anticompetitive harm, serving as a clear example of the FTC's deviation from general antitrust principles.[174] Further, the FTC's findings have contradicted federal court decisions, which have generally required a degree of intentional deception by a patent holder and reliance thereon by the SSO.[175]

The FTC's actions are also troublesome because they do not demonstrate any commitment to applying consistent principles to future cases. Even if the FTC's prior actions could be condensed into a concise statement of law, the substantial changes in the FTC's decisions over time create risks that any action undertaken by a patent holder related to its patents could be subjected to FTC scrutiny. These inconsistencies are even more worrisome given that the FTC lacks a stare decisis requirement for its own decisions.[176] Furthermore, after *Robert Bosch*, even non-SEPs are susceptible to scrutiny.[177] Preventing such uncertainty provides sufficient reason for the FTC to refrain from further enforcement actions in this area until it can issue clear guidance on what it considers to be a Section 5 violation.

Specifically, a formal policy statement is required because the accumulation of additional "precedent" in the form of more inconsistent FTC cases and decisions will not provide adequate guidance. The FTC's oversight of Section 5 cases does not provide the sufficient breadth of cases necessary to craft proper boundaries for Section 5 enforcement. Recall that only the FTC can bring a case under Section 5; neither other agencies nor private parties have this ability.[178] "Unlike the thousands of cases brought under the

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172. *See supra* note 133.

173. *See supra* note 149.

174. *See supra* notes 163–165 (discussing the lack of proof of competitive harm in the complaint).

175. *See supra* notes 89–95 (discussing that multiple federal courts of appeals have conditioned liability on participation in a "consensus-oriented private standard-setting environment").

176. Rybnicek, *supra* note 103, at 1312.

177. *See* Robert Bosch GmbH, File No. 121-0081, 2012 WL 5944820, at *61 (F.T.C. 2013) (stating that the FTC's investigation found the patents at issue to be only "*potentially* standard-essential" (emphasis added)) & *28 n.13 (Ohlhausen, Comm'r, dissenting).

178. Rybnicek, *supra* note 103, at 1306–07.

traditional antitrust laws, the handful of unfair-methods-of-competition disputes provides an insufficient basis from which to attempt to generate substantive rules defining the Commission's Section 5 authority."[179] This constraint also produces a degree of selection bias, whereby the Commission selects only the "best" cases—a metric known only to the Commission itself.[180] Such cases do not provide a truly representative view of the type of conduct that the FTC is seeking to remedy.

The outcomes of these cases are also problematic. The FTC's "unique administrative process" has resulted in an accumulation of settlements and consent decrees, while very few cases have proceeded to litigation.[181] Settlements are administrative documents, which are "relatively vague" and "offer only a superficial discussion of why the specific conduct in question should be challenged without ever articulating a broader framework for analyzing" future claims.[182] Contrary to comprehensive court decisions, "which explain both what conduct is legal and what conduct is illegal," FTC settlements "reveal nothing about the conduct that falls outside the scope of Section 5."[183] The FTC's settlements and consent decrees are typically very narrow, concerning only the particular facts of a given case, and therefore do not provide guidance to non-parties. Such agency decisions do not provide sufficient guidance regarding enforcement boundaries.

Recognizing "that the imprecise scope of [Section 5] ha[s] created significantly harmful uncertainties for businesses," multiple FTC Commissioners have recently begun an increased push for a Section 5 policy statement.[184] A formal policy statement need not address the use of Section 5 in all contexts, but can focus on the conduct of patent holders that possess SEPs. The most successful example of such FTC antitrust guidance is the Horizontal Merger

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179. *Id.* at 1307.

180. *Id.* at 1307–08 ("[T]he fact that the Commission alone selects the Section 5 disputes upon which the[ir enforcement] is founded is particularly problematic . . . A consequence of the Commission's exclusive authority to select Section 5 disputes, together with the fact that the Commission's legal theory is unlikely to be seriously challenged or tested, is that unfair-methods-of-competition law develops only in a way that is desirable to and knowable by the Commission.").

181. *Id.* at 1305, 1309–10.

182. *Id.* at 1310.

183. *Id.* at 1311.

184. Neil W. Averitt, *The Elements of a Policy Statement on Section 5*, 13-OCT ANTITRUST SOURCE 1, 1 (2013) (discussing the proposals of current Commissioners Maureen Ohlhausen and Joshua Wright, and the efforts of former Chairman Jon Leibowitz and former Commissioner J. Thomas Rosch).

Guidelines ("HMGs"), and any SEP guidance could be modeled after the HMGs. The HMGs have provided businesses with sufficient clarity, and the FTC with necessary flexibility to respond to the economic realities of any given case[185]—a feat that SEP guidelines should strive to replicate.

The HMGs "describe the principal analytical techniques and the main types of evidence on which the Agenc[y] will usually rely" in predicting the competitive consequence of a merger.[186] A similar statement by the FTC related to an SEP holder's request for an injunction will "increas[e] transparency and provid[e] more up-to-date guidance" for the business community.[187] Knowing the evidence on which the agency will rely and how the agency will consider that evidence gives parties the ability to evaluate their own conduct before they undertake it.[188] By providing insight into the FTC's view of a given business decision, enforcement guidelines can help to prevent anticompetitive conduct in its incipiency, and consequently can help to promote beneficial conduct.

The continued success of the HMGs is due to their ability to efficiently separate procompetitive and anticompetitive conduct, and condemn only the latter.[189] Namely, the HMGs allow businesses to

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185. *See* Christina C. Ma, *Into the Amazon: Clarity and Transparency in FTC Section 5 Merger Doctrine*, 87 ST. JOHN'S L. REV. 953, 955 (2013).

186. U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, HORIZONTAL MERGER GUIDELINES 1, at § 1 (2010). For instance, merger analysis, especially in the technology sector, has come to rely heavily on party documents. *See* Darren S. Tucker, *A Survey of Evidence Leading to Second Requests at the FTC*, 78 ANTITRUST L.J. 591, 599–600 (2013). In both the merger and SEP contexts, internal company documents created in the ordinary course of business can be extremely informative, providing evidence about the party's intent behind a given business decision and how that decision will impact their business. *See* HORIZONTAL MERGER GUIDELINES, *supra* note 186, at 4. An example of a "hot doc" in the SEP context is an email chain between company executives stating that the purpose for seeking an injunction was to achieve excessive royalties from a licensee with which the SEP holder competes in a downstream product market, in order to raise the price that the competitor must charge its customers and limit their competitiveness in the market.

187. Carl Shapiro, *The 2010 Horizontal Merger Guidelines: From Hedgehog to Fox in Forty Years*, 77 ANTITRUST L.J. 49, 57 (2010).

188. *See* Andrew R. Dick, Merger Policy Twenty-Five Years Later: Unilateral Effects Move to the Forefront.

189. *See* Daniel C. Fundakowski, *Health Care Reform & Antitrust Enforcement—A Cure for Health Plan Merger Market Definition Under A Post-Health Care Reform Regime*, 55 ST. LOUIS U. L.J. 1501, 1521 (2011) ("[T]he Agencies have made it clear that [the hypothetical monopolist test] is a very useful screen for clearing benign mergers and that it will not be supplanted anytime soon."). The hypothetical monopolist test is one of the key analyses of merger enforcement, and is used to determine whether two products or services are

engage in beneficial conduct that generates efficiencies and creates consumer welfare, and to have the opportunity to justify their conduct to the FTC as such.[190] As previously discussed, standardization—and its resultant benefits—requires companies to invest in innovation; antitrust law and IP law intersect at this point in that both bodies of law strive to encourage this beneficial activity.[191] "[M]ost business conduct involving innovation by high-technology firms is procompetitive or competitively benign."[192] The Supreme Court has stated that antitrust law should not be applied in a way that would destroy beneficial or procompetitive conduct.[193] Technological innovation, and standardization in particular, has come to have unparalleled importance for consumers, and thus a core aspect of any SEP guidance should be the encouragement of innovation and other consumer benefits. The importance to antitrust enforcement—in both the SEP and merger contexts—of preserving and promoting consumer welfare provides a notable reason to use the HMGs as an outline for SEP guidance.[194]

Fashioning SEP guidelines in a form similar to the HMGs would also allow the FTC to preserve enforcement flexibility. In light of the principle that antirust enforcement must be conducted with consideration for "the particular structure and circumstances of the industry at issue,"[195] the FTC has expressly recognized the necessity of reevaluating and updating its enforcement guidelines to

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properly considered in the same market. HORIZONTAL MERGER GUIDELINES, *supra* note 186, at 8–10, at § 4.1.1. "The Agencies may evaluate a merger in any relevant market satisfying the test, guided by the overarching principle that the purpose of defining the market and measuring market shares is to illuminate the evaluation of competitive effects." *Id.* at 10. A desire to retain indefinitely one of the key tenets of merger analysis indicates the test's success in differentiating between anticompetitive and benign mergers.

190. *See* ANTITRUST MODERNIZATION COMM'N, REPORT & RECOMMENDATIONS 57 (2007).

191. *See supra* note 69.

192. GAVIL, *supra* note 58, at 1161.

193. *See* Verizon Commc'ns, Inc. v. Law Offices of Curtis V. Trinko, LLP, 540 U.S. 398, 414 (2004) (quoting Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 594 (1986)) (internal quotation marks omitted) ("Mistaken inferences and the resulting false condemnations are especially costly, because they chill the very conduct the antitrust laws are designed to protect.").

194. *Cf.* Scott A. Sher & Andrea Agathoklis Murino, *Unilateral Effects in Technology Markets: Oracle, H&R Block, and What It All Means*, 26-SUM ANTITRUST 46, 50 (2012) ("The 2010 Guidelines assign increased relevance to the importance of innovation competition . . . ").

195. Verizon Commc'ns, Inc. v. Law Offices of Curtis V. Trinko, LLP, 540 U.S. 398, 411 (2004). This proposition is discussed in more detail in Part III.B.1, *supra*.

reflect changes in the economic and competitive landscape of a given industry.[196] The FTC's authority under Section 6 of the FTC Act to undertake in-depth studies,[197] coupled with an ability to amend its guidelines as necessary,[198] will enable the FTC to pinpoint the precise competitive harms, while still retaining the necessary flexibility to respond to changes in the competitive landscape.[199] Given the rapid rate of technological development, the FTC's ability to update and revise its guidance is particularly important in the SEP context.[200]

The FTC's current process of accumulating settlements against SEP holders that seek injunctions has proven insufficient in providing guidance to companies; a formal policy statement is necessary to remedy that failure. Such policy statement requires clarity and flexibility, and a focus on preserving innovation benefits and promoting consumer welfare. The HMGs are an example of FTC antitrust guidance that fulfill those requirements, and therefore provide an effective model on which to base SEP guidance.

B. There is Insufficient Evidence of Competitive Harm

The FTC has failed to clearly identify what competitive harm occurs when the holder of a FRAND-encumbered SEP seeks an injunction. "Only if enforcers find competitive harm from unlawful conduct should they conclude that a firm has committed an antitrust violation."[201] Assessing harm to competition should be guided solely

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196. *See* HORIZONTAL MERGER GUIDELINES, supra note 186, at 1 n.2, at § 1. The FTC has recognized the importance of continually reevaluating its guidance in all areas of its enforcement authority. *See* THE FED. TRADE COMM'N: RETROSPECTIVE REVIEW OF FTC RULES AND GUIDES, https://www.ftc.gov/enforcement/rules/retrospective-review-ftc-rules-guides (last visited Apr. 3, 2015).

197. 15 U.S.C. § 46 (2012).

198. *See* Marleina Paz, Note, *Almost But Not Quite Perfect: The Past, Present, and Potential Future of Horizontal Merger Enforcement*, 45 LOY. L.A. L. REV. 1045, 1058–59 (2012) ("The DOJ first issued these guidelines in 1968, and since then the [FTC and DOJ] have created three major versions of the guidelines with slight modifications in between.").

199. *See* Christine A. Varney, Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, Remarks as Prepared for the Horizontal Merger Guidelines Review Project's Final Workshop: An Update on the Review of the Horizontal Merger Guidelines (Jan. 26, 2010) [hereinafter An Update on the Review of the HMGs], at 1; *see also, e.g.*, *infra* notes 201–202.

200. *See* REPORT & RECOMMENDATIONS, *supra* note 190, at 39.

201. Bill Baer, Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, Address at the 41st Annual Conference on International Antitrust Law and Policy:

by economics.[202] This principle applies to cases involving IP just as it does to other antitrust cases.[203] In particular, it is a basic principle of antitrust law that possessing monopoly power and charging excessive prices are not prohibited *per se*; rather, they are barred only if they are achieved via some anticompetitive means.[204] In its recent SEP enforcement actions, the FTC seems to have lost sight of this requirement, and has been bringing enforcement actions against FRAND-encumbered SEPs without evidence of anticompetitive effects.

With respect to SEPs, it has been found that there is "no economic evidence available" to support the view "that seeking injunctive relief, without more, is itself anticompetitive."[205] Despite bringing enforcement actions against holders of FRAND-encumbered SEPs who sought injunctions, the FTC "ha[s] yet to provide empirical evidence showing that injunctions are an actual problem in the standard-setting context."[206] Notably, the FTC has also adopted a policy statement that it "is not concerned with trivial or merely speculative harms."[207] However, the FTC has consistently failed to satisfy its burden of proving substantial economic harm. For instance, in *N-Data*, there is no support for a finding of economic or competitive injury; only bald statements of possible harms are

International Antitrust Enforcement: Progress Made; Work to be Done (Sept. 12, 2014) [hereinafter Progress Made; Work to be Done], at 6.

202. *See id.*; Ramirez, SEPs and Licensing, *supra* note 5, at *4 ("[C]onsumers are best served when competition enforcement is based solely on sound economic analysis of competitive effects.").

203. *See supra* Part III.B.1 (discussing the "parity approach").

204. *See supra* note 85 (discussing the requirements for a finding of illegal monopolization under traditional antitrust law).

205. Wright, Does the FTC Have a New IP Agenda, *supra* note 73, at *5 (reaching this conclusion after analyzing the FTC's recent *Robert Bosch* and *Google/Motorola* cases and finding that "no federal court has endorsed such a theory of competitive harm in a Sherman Act case").

206. Dorsey, *supra* note 8, at 992 (finding, in particular, that "neither the DOJ nor the FTC has produced concrete evidence demonstrating that patent holders actually use the threat of an injunction to extract unreasonable or non-FRAND royalties from licensees in a manner harmful to consumers"). This is one of the main criticisms of the *Google/Motorola* consent decree. *See supra* notes 163–165.

207. Letter from the Fed. Trade Comm'n to Senators Wendell H. Ford, Chairman, & John C. Danforth, Ranking Minority Member, Consumer Subcommittee of the Committee on Commerce, Science, and Transportation, FTC Policy Statement on Unfairness (Dec. 17, 1980) [hereinafter Policy Statement on Unfairness], *available at* http://www.ftc.gov/public-statements/1980/12/ftc-policy-statement-unfairness.

provided without proof.[208] Further, neither *N-Data* nor *Dell* offer proof that the patent holder attained sufficient market power to allow the company to control prices, i.e. monopoly power.[209] Most recently, in the *Google/Motorola* settlement, certain FTC Commissioners found that "[t]here is no compelling evidence that [anticompetitive] harm exists in this matter, and it is far from certain that such harm is likely to occur in the future."[210]

A related problem is that disallowing a holder of a FRAND-encumbered SEP to seek an injunction may actually cause economic harm, which directly contravenes the objectives of antitrust law. "[R]emoving the possibility of injunctive relief does not remove the incentive of parties to FRAND agreements to appropriate as much of the value associated with a given technology as possible."[211] Instead, what occurs is a "shift in the balance of power between the bargaining parties," such that it is now the licensee who possesses the ability to halt negotiations by seeking an injunction against the patent holder under a claim that the patent holder is breaching their FRAND commitment—an event known as reverse hold-up.[212] The possibility of reverse hold-up is of particular concern in the FRAND context because a FRAND-commitment is one-sided: while the patent holder is required to agree to FRAND terms, the licensee is not required to agree to any negotiating limitations.[213] Therefore, "[t]here might be some situations where an injunction or exclusion order is necessary to get the licensee to behave itself and bargain in good faith."[214] In light of the FTC's prior failures to show anticompetitive effects and the possibility that intervention may

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208. File 051-0094, 2008 WL 258308, at *5, *26 (F.T.C. 2008) (finding that the possible anticompetitive effects may only be "threatened" and not providing any evidence of actual harms, such that the "assertions are impossible to prove on the evidence"); *see also* Robert Bosch GmbH, File No. 121-0081, 2012 WL 5944820, at *28 (F.T.C. 2013) (discussing *N-Data* as a departure from prior FTC cases that were grounded in conduct "that led to, or was likely to lead to, anticompetitive effects").

209. Negotiated Data Solutions, LLC ("N-Data"), File 051-0094, 2008 WL 258308, at *25 ("There is also a substantial question as to whether N-Data enjoyed measurable market power, even with the adoption of the IEEE standard."); Dell Computer Corp., 121 F.T.C. 616, 631 (F.T.C. 1996) (One "notable omission from the Dell complaint is any allegation that the company acquired or extended market power.").

210. Motorola Mobility, LLC and Google, Inc., File No. 121-0120, 2013 WL 124100, at *26 n.22 (F.T.C. 2013).

211. Dorsey, *supra* note 8, at 1000.

212. *Id.*; Economists' Roundtable, *supra* note 28, at 17.

213. Dorsey, *supra* note 8, at 1001.

214. Economists' Roundtable, *supra* note 28, at 12.

merely re-allocate bargaining power and profits between the SEP holder and the licensee, the FTC should refrain from alleging that a FRAND-encumbered SEP holder's injunction violates Section 5, unless it can henceforth provide empirical evidence of anticompetitive harm.

C. Section 5 Enforcement May Undermine Substantial Beneficial Conduct

A proper antitrust analysis should also consider the substantial benefits that result when an SEP holder is able to seek an injunction.[215] As some conduct may have both harmful and beneficial aspects, the FTC's stated policy is that it "will not find that a practice unfairly injures consumers unless it is injurious in its net effects."[216]

The ability of the holder of a FRAND-encumbered SEP to seek an injunction has several potential benefits, which require the FTC's consideration before alleging a Section 5 violation. First, the ability to seek an injunction ensures that the patent holder may exclude those who would not pay a fair price for licensing the technology, thus ensuring that the patent holder can receive royalties sufficient to realize a return on its investment. Achieving a sufficient return is necessary to incentivize innovation. Second, eliminating the ability of a patent holder to exclude others from practicing its patent may deter participation in SSOs, thereby undermining the benefits discussed in Part II.B. Third, a licensee that knows it can continue using a FRAND-encumbered SEP without worrying about being blocked by an injunction may simply wait for a court to decide the FRAND rate.[217] The court's determination could benefit the patentee and harm the licensee, or vice-versa. Either way, the uncertainty and delay of judicial determination may discourage patent holders from SSO participation.

Disallowing injunctions may also undermine some of the economic efficiencies of the current SSO contracting process. Hold-up occurs due to contractual inefficiencies between the patent holder and the SSO. "[T]he contracts omit terms governing some contingent states that may arise over the future life of the contractual arrangement," but that cannot be readily foreseen, quantified, or addressed for various reasons at the time of contracting.[218] Notably,

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215. Rybnicek, *supra* note 103, at 1290.

216. Policy Statement on Unfairness, *supra* note 207.

217. Lindsay, *supra* note 13, at 8 ("[W]ithout the threat of an injunction, the [licensee] has no incentive to come to the table.").

218. Wright, *supra* note 11, at 796.

these contracts typically fail to address the FRAND value for a given patent. While such omissions are glaring, it may be attributable to fear of antitrust liability due to collusive efforts, decreased costs of SSO participation, and decreased costs of contracting.[219]

The parties to SSO agreements are highly sophisticated entities that have crafted the relevant contracts by balancing a number of key considerations. In particular, they understand that "there is considerable uncertainty concerning the ultimate value of the technology" and recognize that "[c]ontractual flexibility ex post can be an important source of economic value."[220] The contracting parties know that this incompleteness may lead to hold-up problems, but they continue to voluntarily enter into these ambiguous contracts because they believe that the benefits of such contracts outweigh the potential costs.[221] Prohibiting injunctions would significantly increase the cost of contracting, because the costs associated with "identifying, specifying, and negotiating all possible future contingencies" are substantial.[222] This is particularly true in the SSO context due to continual advancements in technology, which make anticipating future contingencies inherently difficult.[223] Therefore, the fact that contractual incompleteness may lead to hold-up is not a sufficient reason to condemn the SSO process or to interfere with the ability of patent holders to obtain injunctions.

Further, agreeing to delay negotiation on specific licensing terms expedites adoption and implementation of a standard.[224] This benefits consumers by providing them quicker access to new and better products, and benefits patent holders by offering them the potential to gain additional leverage in negotiations and to recognize added value from their patent.[225] Eliminating the ability to secure an injunction and forcing FRAND bargaining "to [occur at] an earlier stage of the [contracting] process is likely to dissipate some of the current value" recognized by patent holders.[226] In particular, if patent holders lose value at one stage in the process, they will likely attempt to recoup that value somewhere else.[227] What methods a patent holder will use to recoup this loss may vary, but may include

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219. *See id.*
220. *Id.* at 796.
221. *Id.* at 801; Dorsey, *supra* note 8, at 999.
222. Wright, *supra* note 11, at 797.
223. *Id.* at 798–99.
224. Dorsey, *supra* note 8, at 999.
225. *Id.*
226. *Id.* at 1000.
227. *Id.*

decreased investments and efforts in research and development.[228] Section 5 should not be lightly used against the holder of a FRAND-encumbered SEP that seeks an injunction because doing so undermines the benefits of seeking an injunction, and consequently the benefits of SSOs and standardization.

D. The Availability of Alternate Means of Legal Resolution Cautions Against Section 5 Enforcement

In antitrust law, "[m]istaken inferences and the resulting false condemnations are especially costly, because they chill the very conduct the antitrust laws are designed to protect."[229] The Supreme Court has found that the antitrust laws should not be applied where such application "would seem destined to distort investment and lead to a new layer of interminable litigation, atop the variety of litigation routes already available to and actively pursued" by the parties concerned.[230] The presence of an effective system of regulation and method of dispute resolution which deal with the competitive concerns of particular conduct counsels against the superfluous application of the antitrust laws.

This is precisely the situation faced by the FTC in regard to its bringing Section 5 actions against the holder of a FRAND-encumbered SEP. First, there are several attributes of SSOs that mitigate their associated anticompetitive risks. "For example, patent holders that are frequent participants in standard-setting activities may incur reputational and business costs that could be sufficiently large to deter fraudulent behavior."[231] A patent holder that acquires a reputation for breaking FRAND commitments or causing other licensing complications for SEPs and SSOs may quickly find itself excluded from future standards or from the standardization process entirely.

Second, attaining an injunction is not clearly a financially desirable strategy.[232] Patent holders "forgo all royalties while an

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228. *Id.*

229. Verizon Commc'ns v. Law Offices of Curtis V. Trinko, LLP, 540 U.S. 398, 414 (2004) (quoting Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 594 (1986) (internal quotations omitted)).

230. *Id.*

231. *Standard Essential Patent Disputes and Antitrust Law*, *supra* note 5, at 6; *see also* Dorsey, *supra* note 8, at 996 ("Sophisticated firms, like those involved in developing interoperability standards, also lack the incentive to demand unreasonable licensing terms because of the impact on their reputation . . . ").

232. Dorsey, *supra* note 8, at 996.

injunction is in effect,"[233] and thus seeking an injunction may not be financially sound, even when attainable. Instead, finding a mutually agreeable licensing arrangement is often the preferred alternative. If a patent holder is also a manufacturer, it "may find it more profitable to offer attractive licensing terms in order to promote the adoption of the product using the standard, increasing demand for its product rather than extracting high royalties."[234]

Third, private measures are already available to SSOs and their members to avoid competitive harm and to resolve any related disputes. These parties are generally large, sophisticated entities that have a substantial amount at stake in a transaction, so they are likely to litigate the issue or pursue other remedies on their own, without FTC intervention.[235] The SSOs and other affected parties may file lawsuits or submit their dispute to binding arbitration.[236] Litigated claims can take multiple forms—patent claims, contract law claims, and possibly antitrust claims under Section 2 of the Sherman Act. If the matter involves an imported product, the case may be brought before the International Trade Commission ("ITC").[237] Lastly, SSOs have the ability to impose terms on their own members that, for instance, would explicitly require their members to submit to SSO-sponsored mediation or binding arbitration.[238] Considering the existing structure of SSO administration, the multiple, less-detrimental avenues available to resolve these disputes, and the incentive of SSOs and their members to pursue such avenues, the FTC should refrain from bringing Section 5 claims against holders of FRAND-encumbered SEPs that seek injunctions.

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233. *Id.*

234. *Standard Essential Patent Disputes and Antitrust Law*, *supra* note 5, at 6 (quoting PROMOTING INNOVATION, *supra* note 4, at 40–41 (internal quotations omitted)).

235. The number of recent cases brought to compel a patent holder to comply with licensing commitments supports this observation. *See e.g.*, Microsoft Corp. v. Motorola, Inc., 963 F. Supp. 2d 1176 (W.D. Wash. 2013); Apple, Inc. v. Motorola Mobility, Inc., 886 F. Supp. 2d 1061 (W.D. Wis. 2012); Apple Inc. v. Samsung Electronics Co., Ltd., No. 11-CV-01846-LHK, 2011 WL 4948567 (N.D. Cal. Oct. 18, 2011); Research in Motion Ltd. v. Motorola, Inc., 644 F. Supp. 2d 788 (N.D. Tex. 2008); Broadcom Corp. v. Qualcomm Inc., 501 F.3d 297 (3d Cir 2007).

236. Robert Bosch GmbH, File No. 121-0081, 2012 WL 5944820, at *28 (F.T.C. 2013).

237. *See Apple v. Motorola Mobility*, 886 F. Supp. 2d at 1066.

238. *See* Hillel, *supra* note 2, at ¶ 19.

V. CONCLUSION

As demand for interconnectivity between consumers has increased, there has been a parallel increase in the prevalence of standardization and the importance of SEPs. Standardization has substantial benefits for consumers and for companies. However, the increased use of SEPs presents some pitfalls, most notably the problem of patent hold-up. While most SSOs require that any member whose patent is adopted as an industry standard agree to certain licensing requirements—most commonly an agreement to license its SEPs to any willing licensee on FRAND terms—patent holders do not always comply with their obligations.

Interested parties have devised a variety of ways to address such contractual breaches, including the FTC's use of Section 5 of the FTC Act, to enforce such licensing obligations. Yet the FTC's actions are controversial for several reasons. While enforcement efforts under Section 5 must satisfy the competitive harm requirements typical of all antitrust enforcement, FTC decisions to date have failed to clearly delineate just what conduct the FTC considers anti-competitive and, in some cases, whether any economic harm exists at all. Disallowing injunctions may actually cause anticompetitive harm—and may undermine many of the important benefits associated with patent rights generally, and the standardization process specifically. Moreover, the use of Section 5 is especially pernicious given the governing structure of SSOs and the private remedies available for interested parties to resolve their disputes without the harmful effects of Section 5 enforcement.

The present inconsistency of FTC actions against FRAND-encumbered SEPs, coupled with the inability of the FTC's current case-by-case process to develop sufficient certainty, means that the only viable method for creating the necessary guidance is through issuing a clear policy statement. Issuing formal guidance as to how the FTC will apply Section 5 has been successful in numerous other areas of FTC authority.[239] Most notable are the Horizontal Merger Guidelines, which can serve as a model for SEP guidelines at the FTC. Similar to what is required for an SEP statement, the HMGs

239. Rybnicek, *supra* note 103, at 1314. In addition to the merger guidelines that specifically "outline the principal analytical techniques, practices, and the enforcement policy" of the agency, HORIZONTAL MERGER GUIDELINES, *supra* note 186, at 1, the FTC has also issued a formal statement on "unfairness," as it relates to unfair or deceptive acts or practices, Policy Statement on Unfairness, *supra* note 207. The FTC has also successfully issued and implemented numerous regulations and guides related to its consumer protection mission. *See* 16 C.F.R. §§ 18.0–901.1 (2015).

have succeeded in providing guidance on which competitive harms the agency is concerned and what evidence it will consider when evaluating the presence of those harms. Such policy statements have not only provided the necessary level of clarity to businesses, but have also successfully allowed the FTC to retain an appropriate level of discretion.[240] There is no reason to think that the FTC is incapable of issuing such guidance in this context.[241] Until the FTC can provide sound economic-based guidance, it should avoid bringing enforcement actions against the holders of FRAND-encumbered SEPs solely on the basis that they are seeking injunctions to prevent the use of their patents.

A deliberate and thoughtful approach by the FTC would also have international benefits. In an economy characterized in part by increased globalization and international trade, the actions of foreign antitrust systems can affect U.S. consumers and companies. The United States has one of the oldest and most respected antitrust systems,[242] and antitrust authorities in many other nations closely follow U.S. enforcement efforts and court decisions.[243] China, for example, has referenced and relied upon antitrust rulings in the United States to justify its own SEP rules.[244] Based on the *Google/Motorola* consent decree, China has created a rule whereby any unreasonable refusal to license an SEP to a competitor is *per se* monopolization, to be remedied by compulsory licensing;[245] China has also extended compulsory licensing to SEPs that are not contributed voluntarily and are not encumbered by SSO membership terms.[246]

If the FTC desires to combat rules that are ultimately destructive of IP rights and long-term economic well-being, it should put its own house in order. By providing greater clarity regarding its enforcement decisions, it can help to ensure that foreign jurisdictions do not misinterpret its decisions and establish improper and detrimental rules based thereon.

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240. Rybnicek, *supra* note 103, at 1314.

241. *Id.* at 1314–15.

242. Dina Kallay & Marc Winerman, *First in the World: The FTC International Program at 100*, 29-FALL ANTITRUST 39, 39 (2014).

243. *See* Ohlhausen, Antitrust Enforcement in China, *supra* note 56, at *4–*5.

244. *Id.* at *5 ("the presenter reasoned that the FTC's decision in the Google SEPs meant that an 'unreasonable' refusal to grant a license for a standard-essential patent to a competitor should constitute monopolization").

245. *Id.*

246. *Id.*