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Patents, Standard Setting, and Antitrust – New Insight from the Department of Justice

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On February 2, 2015, the Antitrust Division of the U.S. Department of Justice (DOJ) took another step towards clarifying the antitrust rules applicable to standard essential patents (SEPs). In a business review letter to the Institute of Electrical and Electronics Engineers (IEEE), the DOJ stated that it would not challenge proposed updates of the IEEE Standard Association's (IEEE-SA) Patent Policy (Policy). These updates are intended to clarify the rules and practices governing patents declared essential to IEEE standards and subject to commitments to license on reasonable and non-discriminatory (RAND) terms. They focus on the following four issues:

- Ensuring that a RAND royalty will be available on "reasonable" terms by basing it upon the inventive value of the SEP alone and excluding any hold-up power conferred by standardization;
- Ensuring that all implementers are able to license SEPs on RAND terms, no matter what type of product they supply;
- Forbidding SEP holders from seeking injunctions or other exclusionary relief unless RAND royalties are not available to them; and
- Forbidding the use of SEPs to extract licenses to non-SEPs or SEPs for different standards.

  The DOJ concluded that these changes have the "potential to benefit competition and consumers by facilitating licensing negotiations, mitigating hold up and royalty stacking, and promoting competition among technologies for inclusion in standards."1 DOJ business review letters are not binding law but provide insight into the DOJ's enforcement perspectives. As such, the letter is another important step in the continuing development of the rules and practices applicable to SEPs and RAND licensing.

The prospect that, following the business review letter, the IEEE will approve the updated policy also has important implications for the ongoing debate regarding the consequences of RAND commitments. One of the world's leading standard-setting organizations will have given important guidance concerning many of the key recurring controversies regarding RAND commitments and their enforcement. Even outside of the IEEE context, this could impact licensing negotiations and litigations involving RAND commitments.

Background

The IEEE-SA is a developer of global standards in a wide variety of fields, including telecommunications, power and energy, and biomedical and healthcare.2

As the IEEE explained in its request for a business review letter, it began considering changes to its Policy in early 2013. The changes were prompted by calls from competition regulators for standard-setting organizations to provide further clarity regarding the nature of the RAND commitment, and the IEEE's observations that standards implementers and patent holders sometimes espoused very different views regarding the implications of a RAND commitment.3 As to the latter, the IEEE pointed to two notable litigations in which the patent holders' demands for RAND royalties for SEPs for the IEEE's 802.11 standard were far in excess of what the implementers (and ultimately the courts) considered RAND rates: *In re Innovatio IP Ventures, LLC Patent Litig., No. 11-C-9308, 2013 WL 5593609* (N.D. Ill. Oct. 3, 2013), and *Microsoft Corp. v. Motorola, Inc., No. C10-1823, 2013 WL 2111217* (W.D. Wash. April 25, 2013).4

The proposed updates to the Policy were formulated over a 15-month period and then reviewed and approved at various levels within the IEEE. In December 2014, the IEEE Board of Governors voted to approve the updated Policy contingent on receipt of a favorable business review letter and review by the IEEE Board of Directors. With the favorable business review letter from the DOJ, the IEEE Board of Directors is now set to vote on the updated Policy at its regularly scheduled meeting in February 2015.

Proposed Patent Policy Updates

Reasonable Rates

The IEEE's proposed updated Policy includes a definition of what constitutes a "Reasonable Rate" for a RAND royalty. The definition requires that a Reasonable Rate should "exclud[e] the value, if any, resulting from the inclusion of that Essential Patent Claim's technology in the IEEE Standard."5 The DOJ concluded this provision "aligns with generally accepted goals of RAND commitments, namely, providing the patent owner with appropriate compensation, while assuring implementers that they will not have to pay any hold-up value connected with the standardization process."6

Further, the proposed updated Policy sets forth three additional factors that should be considered in determining a RAND rate:7

- ***Focus on the smallest saleable unit***: "The value that the functionality of the claimed invention or inventive feature within the Essential Patent Claim contributes to the value of the relevant functionality of the smallest saleable Compliant Implementation that practices the Essential Patent Claim."8
- ***Concern for aggregate royalty demands or "royalty stacking"***: "The value that the Essential Patent Claim contributes to the smallest saleable Compliant Implementation that practices that claim, in light of the value contributed by all Essential Patent Claims for the same IEEE Standard practiced in that Compliant Implementation."9

- ***Caution in using licenses proffered as comparable***: "Existing licenses covering use of the Essential Patent Claim, where such licenses were not obtained under the explicit or implicit threat of a Prohibitive Order, and where the circumstances and resulting licenses are otherwise sufficiently comparable to the circumstances of the contemplated licenses."10

The DOJ concluded that these "factors focus attention on considerations that may be likely to lead to the appropriate valuation of technologies subject to the IEEE RAND Commitment."11 It further noted that the proposed updated Policy does not require consideration of only these factors in setting a RAND rate and does "not mandate any specific royalty calculation methodology or specific royalty rates."12

Nondiscrimination

The proposed updated Policy clarifies that SEP holders must license their patents "for any Compliant Implementation" and cannot refuse to license an interested implementer based on its position in the supply chain. (For example, an SEP holder could not refuse to license the supplier of a chip that goes into a finished product, in the hope of extracting a larger royalty from a downstream product supplier instead.) As the DOJ concluded, this clarification provides assurance to parties considering implementing a standard "that they will have access to necessary technology, thereby facilitating implementation of these standards, to the benefit of consumers."13

Availability of Prohibitive Orders

The IEEE's proposed updated Policy also clarifies that an SEP holder "shall neither seek nor seek to enforce a Prohibitive Order," such as an injunction or exclusion order, "unless the implementer fails to participate in, or to comply with the outcome of, an adjudication . . . by one or more courts that have the authority to determine Reasonable Rates and other reasonable terms and conditions; adjudicate patent validity, enforceability, essentiality, and infringement; award monetary damages; and resolve any defenses and counterclaims."14

The DOJ observed that "[i]nherent in . . . a RAND commitment is a pledge to make licenses available to those who practice such essential patent claims as a result of implementing the standard—in other words, not to exclude these implementers from using the standard unless they refuse to take a RAND license."15 Nonetheless, the DOJ concluded that this clarification "may reduce any remaining uncertainty among implementers of IEEE-SA standards by limiting the ability of patent holders who have made an IEEE RAND Commitment to seek prohibitive orders."16

Permissible Demands for Reciprocal Licenses

Finally, the IEEE's proposed update to the Policy clarifies that SEP holders may condition licensing their SEPs on the licensee's willingness to reciprocally license its own SEPs for the same standard.
But while requiring reciprocity for the same standard is permissible, the proposed updated Policy

clarifies that SEP holders cannot use their SEPs to demand a license to a licensee's patents that are not essential or are essential to a different standard. The DOJ found that codifying this principle "will reduce the possibility that a holder of a RAND-encumbered patent could leverage the patent to force a cross-license of, among other things, a potential licensee's differentiating patents and limit the potential for anticompetitive tying."17

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The past few years have seen a number of important decisions by courts and actions by competition regulators clarifying the nature and scope of the RAND commitment and the limits it places on the conduct of SEP holders. The DOJ's IEEE business review letter is another such important development. Beyond the direct impact on the IEEE's potential adoption of an updated Policy, the DOJ's letter highlights key principles that should guide the negotiation of RAND licenses generally:

- A RAND royalty should compensate the SEP holder only for the value of its SEP and not any hold-up power conferred by standardization;
- RAND licenses should be made available to all interested implementers, no matter in what form they implement the standard;
- SEP holders should seek injunctions only when RAND royalties are not available to them; and
- SEPs should not be used to extract licenses to non-SEPs or SEPs for different standards.

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[1] Letter from Acting Assistant Attorney General Renata B. Hesse, U.S. Dep't of Justice, to Michael A. Lindsay, Esq.,
Dorsey & Whitney LLP, at 16 (Feb. 2, 2015) [hereinafter, Response].

[2] Letter from Michael A. Lindsay, Esq., Dorsey & Whitney LLP, to The Hon. William J. Baer, Assistant Att'y Gen., U.S. Dep't of Justice, at 2 (Sept. 30, 2014) [hereinafter, Request].

[3] *Id*. at 10-13.

[4] *Id*. at 10-11 n.21.

[5] Request, *supra* note 2, at 15.

[6] Response, *supra* note 1, at 11.

[7] Request, *supra* note 2, at 15-16.

[8] *Id*.

[9] Request, *supra* note 2, at 16.

[10] *Id*.

[11] Response, *supra* note 1, at 12.

[12] *Id*. at 12.

[13] *Id*. at 14.

[14] Response, *supra* note 1, at 9.

[15] *Id*. at 9.

[16] *Id*. at 10.

[17] *Id*. at 15.

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