# *Bosch/SPX*: FTC Sends Tough Message Regarding Standards-Essential Patents Through Merger Challenge

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The Federal Trade Commission announced on Monday a proposed consent decree in connection with Robert Bosch GmbH's acquisition of a division of SPX Corporation. This action is notable for several reasons:

- The Commission made important statements about its enforcement intentions regarding alleged breaches of "FRAND" commitments for declared standards-essential patents (SEPs). Most importantly, the Commission said, in appropriate circumstances, it will use its authority under Section 5 of the Federal Trade Commission Act to challenge attempts by holders of FRAND-committed SEPs to obtain injunctions against implementers of standards.
- The FTC is using Section 5, which prohibits "unfair methods of competition" and "unfair or deceptive acts or practices," to address conduct that the Commission acknowledged is not necessarily proscribed by the Sherman Act.
- The action is another example of an agency using the merger review process to uncover and take enforcement actions against conduct not directly related to the transaction.

**Patent Holdup and Injunctions**

Companies holding patents they claim are necessary to manufacture devices that comply with an industry standard may be able to "hold up" for exorbitant royalties other companies (including downstream competitors) that supply standard-compliant products. Although a technology supplier may face competition from rival technologies before standardization, once the standard-setting organization incorporates its technology into the standard, implementers are typically "locked in" to using that technology and cannot constrain licensing terms by turning to alternative technologies. To mitigate this hold up risk, standard-setting organizations typically require patent holders participating in standard-setting activities to license their standard-essential patents on "fair, reasonable and non-discriminatory" (FRAND) terms.[1]

Scrutiny of patentees seeking to obtain injunctions based on FRAND-committed SEPs—along with attention to FRAND royalty bases and royalty rates—has been increasing in litigations, regulatory activities, and congressional investigations. The FTC's action comes in the wake of court rulings examining the interplay between FRAND commitments and requests for injunctive relief.[2]

**The FTC Action**

The FTC challenged Bosch's acquisition of SPX Service Solutions, a division of SPX Corporation, based on a relatively straightforward determination that the transaction would lead to a near-monopoly of "air conditioning recovery, recycling and recharging systems" (ACRRR), which automotive technicians use to remove refrigerant from vehicle air conditioning systems. To address those concerns, the Commission required Bosch to divest its own ACRRR business. The proposed consent decree also imposes remedies to address certain Bosch "restrictive agreements" with wholesale distributors and independent service technicians that the Commission found make entry and expansion difficult for competing ACRRR device suppliers.[3]

Regarding SEP abuse, the Commission alleged that before SPX was acquired by Bosch, it had violated Section 5 of the FTC Act by seeking injunctions based on two patents that SPX had declared essential to industry standards governing the operation of ACRRR devices. ACRRR devices are manufactured according to standards established by an industry standard-setting body, SAE International, which requires standard-setting participants to license potential SEPs either royalty free or on FRAND terms. SPX sued certain competitors for infringing its SEPs and sought injunctive relief. SPX later sent a "letter of assurance" to SAE committing to license these patents on FRAND terms, but continued its suit for injunctive relief, even though the defendants were willing to take licensees on FRAND terms.[4]

Three aspects of the FTC's action are particularly notable:

- First, the Commission alleged that the act of seeking injunctive relief based on FRAND-committed patents, by itself, constituted an unfair method of competition under Section 5, notwithstanding that neither SAE's rules nor SPX's letter of assurance explicitly disclaimed seeking injunctive relief. The Commission observed that "[s]eeking injunctions against willing licensees of FRAND-encumbered standard essential patents . . . is a form of FRAND evasion and can reinstate the risk of patent hold-up that FRAND commitments are intended to ameliorate."[5] The Commission also warned in strong terms that "[p]atent holders that seek injunctive relief against willing licensees of their FRAND-encumbered SEPs should understand that in appropriate cases the Commission can and will challenge this conduct as an unfair method of competition under Section 5 of the FTC Act."[6]
- Second, to remedy the alleged Section 5 violation the FTC is requiring Bosch "to offer a royalty-free license to all potential implementers" for purposes of manufacturing ACRRR devices in the United States.[7] The Commission explained that "while a royalty-free license may not be an appropriate remedy in every case involving evasion of a FRAND commitment," because Bosch chose to license these patents to the acquirer of its divested ACRRR business on a royalty-free basis, "a license to other market place participants on the same terms is necessary to ensure that the merger remedy is not inequitable in

application."[8] Although the Commission is not explicit on this point, this statement may suggest that in future cases the Commission will carefully scrutinize the terms of licenses with similarly situated third parties to determine whether the patent owner has complied with its obligation to license on non-discriminatory terms (which can raise complex issues of proof, particularly when cross-licenses are involved).

- Third, the FTC is requiring Bosch to deliver a letter of assurance to SAE promising to license on FRAND terms any SEPs that Bosch may acquire in the future for the standards at issue.[9] Notably, the Commission observed: "Pursuant to its FRAND obligations, Bosch has agreed not to seek injunctive relief against such third parties, unless the third party refuses in writing to license the patent consistent with the letter of assurance, or otherwise refuses to license the patent on terms that comply with the letter of assurance as determined by a process agreed upon by both parties (e.g., arbitration) or a court."[10] Here, the Commission seems to be taking a strong position regarding whether a standard implementer is an "unwilling licensee," suggesting that it is not enough that a standard implementer rejects a licensee offer that the declared SEP holder claims is FRAND. Rather, the implementer must either expressly disclaim willingness to license on objectively FRAND terms or refuse to pay royalties after a court or arbitrator has determined that such royalties are FRAND.

Commissioner Ohlhausen issued a strongly worded statement disagreeing with the Commission's position, in which she highlighted her concerns about the potentially far-reaching implications of the Commission's action. First, she believes FTC action under Section 5 of the FTC Act in this hotly contested area "effectively ousts other institutions, including the federal courts and the International Trade Commission . . . from the important and complex area of SEPs," "lack[s] regulatory humility," and "implies that our judgment on the availability of injunctive relief on FRAND-encumbered SEPs is superior to that of these other institutions."[11] Second, she cautions that Section 5 is a poor vehicle for the type of conduct at issue in Bosch/SPX, contending that "[m]ere breaches of FRAND commitments . . . are better addressed by the relevant SSOs or by the affected parties via contract and/or patent claims resolved by the courts or through arbitration."[12] Third, she faults the Commission for failing to make its views regarding Section 5 sufficiently clear before bringing actions based on the statute. By failing to do so, "the Commission runs a serious risk of failure in the courts and a possible hostile legislative reaction."[13]

**Implications of the FTC Action**

In recent months, both the FTC[14] and the Department of Justice[15] have repeatedly stressed concerns about holders of declared SEPs seeking injunctions and other exclusionary remedies against standard implementers, among other concerns about potential SEP abuses. With its action this week, the FTC has now followed up on its statements by using its authority under Section 5 of the FTC Act against an SEP holder that sought injunctive relief. Firms should recognize that US (and foreign) competition authorities are watching their SEP licensing practices closely, especially with regard to attempts to enjoin suppliers of standards-compliant products.

Additionally, the Commission's action highlights that merger investigations can bring scrutiny of practices not directly related to the merger, and the agencies will not hesitate to take enforcement actions based on conduct discovered in this way. Accordingly, merging parties are well advised to consider whether a merger investigation might raise questions about other aspects of their business conduct and be prepared to address such questions if they arise.

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1 The term "reasonable and non-discriminatory" (RAND) is also used. In practice, FRAND and RAND are interchangeable.

[2] See Microsoft Corp. v. Motorola, Inc., No. 12-35352 (9th Cir. Sept. 28, 2012) ("Motorola, in its declarations to the ITU, promised to 'grant a license to an unrestricted number of applicants on a worldwide, non-discriminatory basis and on reasonable terms and conditions to use the patented material necessary' to practice the ITU standards. . . . Implicit in such a sweeping promise is, at least arguably, a guarantee that the patent-holder will not take steps to keep would-be users from using the patented material, such as seeking an injunction, but will instead proffer licenses consistent with the commitment made."); Apple v. Motorola, No. 1:11-cv-08540 (N.D. Ill. June 22, 2012) (Posner, J., sitting by designation) ("I don't see how, given FRAND, I would be justified in enjoining Apple from infringing the '898 unless Apple refuses to pay a royalty that meets the FRAND requirement. By committing to license its patents on FRAND terms, Motorola committed to license the '898 to anyone willing to pay a FRAND royalty and thus implicitly acknowledged that a royalty is adequate compensation for a license to use that patent.").

[3] Analysis of Agreement Containing Consent Order to Aid Public Comment at 3-4, In re Robert Bosch GmbH, F.T.C. File No. 121-0081 (F.T.C. Nov. 26, 2012); Decision & Order at 12-13, In re Robert Bosch GmbH, F.T.C. File No. 121-0081 (F.T.C. Nov. 26, 2012).

[4] Complaint, In re Robert Bosch GmbH, F.T.C. File No. 121-0081 (F.T.C. Nov. 21, 2012) at 3-5.

[5] Analysis of Agreement, supra note 3, at 4.

6 Statement of the Federal Trade Commission at 2, In re Robert Bosch GmbH, F.T.C. File No. 121-0081 (F.T.C. Nov. 26, 2012). The Commission noted that it had "no reason to believe that, in this case, a monopolization count under the Sherman Act was appropriate" and "reserved for another day the question whether, and under what circumstances, similar conduct might also be challenged as an unfair act or practice [under Section 5], or as monopolization [under the Sherman Act]." Id. at 2 n.7.

7 Analysis of Agreement, supra note 3, at 5.

8 Id.

9 Decision & Order, supra note 3, at 14; Analysis of Agreement, supra note 3, at 5.

10 Analysis of Agreement, supra note 3, at 5.

11 Statement of Commissioner Maureen K. Ohlhausen at 1-2, In re Robert Bosch GmbH, F.T.C. File No. 121-0081 (F.T.C. Nov. 26, 2012).

12 Id. at 3.

13 Id. at 3-4.

14 See Third Party United States Federal Trade Commission's Statement on the Public Interest at 3-4, In re Certain Wireless Communication Devices, Inv. No. 337-TA-745 (U.S. I.T.C. June 6, 2012), available at www.ftc.gov/os/2012/06/1206ftcwirelesscom.pdf ("[A] royalty negotiation that occurs under threat of an exclusion order may be weighted heavily in favor of the patentee in a way that is in tension with the RAND commitment. . . . [T]he threat of an exclusion order may allow the holder of a RAND-encumbered SEP to realize royalty rates that reflect patent hold-up, rather than the value of the patent relative to alternatives, which could

raise prices to consumers while undermining the standard setting process."); see also Jon Leibowitz, Chairman, Fed. Trade Comm'n, "Remarks of FTC Chairman Jon Leibowitz as Prepared for Delivery at the Sixth Annual Georgetown Law Global Antitrust Enforcement Symposium" at 9 (Sept. 19, 2012), available at http://www.ftc.gov/speeches/leibowitz/120919jdlgeorgetownspeech.pdf ("Because of its potential to undermine standard setting and lead to higher prices for consumers, such a demand may be an unfair method of competition under Section 5 of the FTC Act.").

[15] See Press Release, U.S. Dep't of Justice, "Statement of the Department of Justice's Antitrust Division on Its Decision to Close Its Investigations of Google Inc.'s Acquisition of Motorola Mobility Holdings Inc. and the Acquisitions of Certain Patents by Apple Inc., Microsoft Corp. and Research in Motion Ltd." (Feb. 13, 2012), available at http://www.justice.gov/opa/pr/2012/February/12-at-210.html ("The division's concerns about the potential anticompetitive use of SEPs was lessened by the clear commitments by Apple and Microsoft to license SEPs on fair, reasonable and non-discriminatory terms, as well as their commitments not to seek injunctions in disputes involving SEPs."); see also Renata Hesse, Dep. Ass't Att'y Gen., U.S. Dep't of Justice Antitrust Div., "Six 'Small' Proposals for SSOs Before Lunch" at 9 (Oct. 10, 2012), available at http://www.justice.gov/atr/public/speeches/287855.pdf ("To my mind, a patent holder who participates in the standard-setting activities and makes a F/RAND licensing commitment is implicitly saying that she will license the patent claims that must be used to implement the standard to any licensee that is willing and able to comply with the licensing terms embodied in the commitment."); Joseph F. Wayland, Acting Ass't Att'y Gen., U.S. Dep't of Justice Antitrust Div., "Antitrust Policy in the Information Age: Protecting Innovation and Competition" at 4 (Sept. 21, 2012), available at http://www.justice.gov/atr/public/speeches/287215.pdf (same).

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