

## Part III. Standards-Setting and Antitrust Enforcement in the US

In the US the scope of antitrust enforcement by the country's two antitrust authorities, the Antitrust Division of the Department of Justice (DOJ) and the Federal Trade Commission (FTC), has been defined by the institutional performance of US courts. Litigation in the US, with the possible exception of cases adjudicated by the International Trade Commission (ITC), has produced a working balance of interests between SEPs owners and standard implementers. This is particularly due to US courts' willingness to avail themselves of a variety of legal bases to deny injunctive relief in cases where such remedy would significantly affect the competitive performance of the markets for standard implementing products.

Specifically, by recognising the contractual nature of the FRAND commitment US courts have made the FRAND obligation directly enforceable by means of contract law. Moreover, the recognition of the equitable nature of injunctive relief by Supreme Court's *eBay* ruling, has provided lower courts with a very flexible framework which has produced pro-competitive litigation outcomes.

In this context antitrust authorities have only rarely intervened to protect 'willing licensees' from the threat of injunctions. That said, decisive antitrust enforcement, in those residual cases where the seeking of injunctions was liable to impede effective competition in the downstream markets, has added a further layer of protection and, even more importantly, a significant deterrence to opportunistic behaviour.

### *A. The Nature of the FRAND Commitment*

In the US, the contractual nature of the FRAND commitment is widely understood as vital to its effectiveness and practicality, without which unimpeded access to standards cannot be maintained.<sup>51</sup> It is exactly in view of the overarching aim to secure effective access that the FRAND contractual commitment circumscribes the SEPs-holders' statutory patent rights.<sup>52</sup>

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51 See Sidak, *supra* n. 50, at 9.

52 Ibid, at 13-14.

In *Realtek V. LSI*, the District Court for the Northern District of California interpreted the FRAND commitment as a *binding contract* between the SSO and the SEP-holder, standard implementers being third-party beneficiaries.<sup>53</sup> The court further ruled that the SEP-holder has a contractual obligation to make an *explicit offer* on FRAND terms to the standard implementer. This view was also endorsed by the FTC in its *Google/MMI* Consent Order which imposed Motorola (by then a wholly owned subsidiary of Google) the obligation to offer first FRAND terms to potential licensees before even seeking injunctions.

Of course, since apart from IEEE no other SSO has imposed an outright restriction in seeking injunctions, SEPs-holders that file for injunction are not violating their contractual obligations *as such*. In *Apple V. Motorola*, the Federal Circuit indeed dismissed a *per se* rule against injunctions for SEPs.<sup>54</sup> However, the SEP-holder's obligation to offer first FRAND terms has important implications for his right to seek injunctions which cannot be understated.

The 9th Circuit in its *Microsoft V. Motorola* ruling upheld the temporary restraint order issued by the District Court for the Western District of Washington against Motorola, which prohibited the enforcement of any injunctions Motorola might receive in its litigation in Germany until a final decision could be reached on whether Motorola's offer was indeed on FRAND terms.<sup>55</sup> The *Realtek* court applied the same reasoning, explicitly citing *Microsoft*, in accepting Realtek's injunction request against the enforcement by LSI of its ITC exclusion order under Section 337 of the 1930 Tariff Act.

The ability of standard implementers to sue and enjoin SEP-holders that fail to honour the FRAND commitment is a valuable constraint on opportunistic behaviour. Its importance is more evident if one considers the position of German courts on the same subject. It will be shown below that German case law in seeing in FRAND commitment nothing more than a mere declaration on the part of the SEP-holder, and in relying instead on a quite unique interpretation of competition law, has whittled away much of the intended effectiveness and enforceability of the FRAND commitment.

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53 *Realtek Semiconductor Corp. v. LSI Corp.*, 946 F. Supp. 2d 998, 1005 (N.D. Cal. 2013); see also *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 878 (9th Cir. 2012).

54 *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1331 (Fed. Cir. 2014).

55 *Microsoft Corp. v. Motorola Inc.*, 864 F. Supp. 2d 1023, 1038 (W.D. Wash. 2012).

*B. Injunctive Relief Post-eBay*

Apart from breach of contract action, standard implementers that are faced with injunctions can also rely upon patent law itself to avoid being enjoined by SEPs-owners. Under Section 283 of the US Patent Act courts adjudicating on patent infringement cases *may* issue injunctions prohibiting infringers from making, selling or offering for sale infringing products “*in accordance with the principles of equity*”.<sup>56</sup> The wording of the provision makes it clear that injunctive relief is an equitable remedy at the discretion of the courts. However, prior-*eBay*, US courts failed to consistently apply traditional equity principles in adjudicating patent infringement cases and injunctions were more or less issued as a matter of course.<sup>57</sup> The Supreme Court changed this situation in 2006 and its decision in *eBay*.

The dispute concerned one of MercExchange’s business method patents. The District Court for the Eastern District of Virginia denied MercExchange injunctive relief in its infringement action against eBay relying on the fact that MercExchange was not practicing the patent itself but rather exploited the patent through extensive licensing. On appeal, the Federal Circuit dismissed the district court’s interpretation of the Patent Act and instead indicated that injunctions should generally be granted in cases of infringement, except in rare circumstances and in order to protect the public interest. The Supreme Court dismissed the views of both courts, though such dismissal was addressed first and foremost at the Federal Circuit and its friendly stance towards injunctions for patent infringement.

The traditional four-factor test for awarding injunctive relief in equity should equally be applied to patent infringement cases.<sup>58</sup> According to the Supreme Court for an injunction to be granted, the patentee must establish:

*“(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.”<sup>59</sup>*

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<sup>56</sup> 35 U.S.C. § 283.

<sup>57</sup> Sidak, *Patent Holdup and Oligopsonistic Collusion in Standard-Setting Organizations*, *Journal of Competition Law and Economics* 5(1) 140 (2009).

<sup>58</sup> *Weinberger v. Romero-Barcelo*, 456 U. S. 305, 311–313 (1982); *Amoco Production Co. v. Gambell*, 480 U. S. 531, 542 (1987).

<sup>59</sup> See *eBay V. MercExchange*, *supra* n. 4.

The Court went on to stress out that the four-factor test implied no *per se* rule against granting injunctions to patentees that do not normally practice the patents themselves. At the same time no different test should apply in injunctions for patent infringement than that applied to permanent injunctions in general.

Of particular relevance to the standards-setting context were the remarks of Justice Kennedy in his concurring opinion (Justices Stevens, Souter and Breyer also concurred). Justice Kennedy emphasised the danger of injunctions been used by NPEs to extract unreasonable royalties. Moreover Justice Kennedy addressed the issue of complex products incorporating multiple components. In his view, in cases where the infringement concerns only a minor component of the end product, injunction is not warranted and damages are more than enough to compensate the patent owner.

In *Apple V. Motorola* the Federal Circuit applied the *eBay* four-factor test to dismiss Motorola's request for injunction.<sup>60</sup> As already pointed out above, the court rejected what it viewed as a *per se* rule against injunctions for SEPs in Posner's ruling for the same case at the District Court for the Northern District of Illinois. Moreover, building on Justice Kennedy's remarks in *eBay*, the Federal Circuit held that for products with many non-infringing components, plaintiffs will have difficulty in meeting the public interest factor.

However, more crucial was the court's reasoning on the implications of the FRAND commitment and the irreparable harm requirement. The Federal Circuit held that, unless the standard implementer is demonstrably unwilling to take a licence on FRAND terms, SEPs-holders' FRAND commitment will be a strong indication that monetary damages are sufficient remedy and that the bar for meeting the first *eBay* factor is very high indeed. In the particular case, Motorola's extensive licensing of its FRAND-encumbered SEPs were damning for its request for injunction.

Although the four-factor test applies to all patent cases, the impact of *eBay* on requests for injunctions for SEPs is decisive. Apart from difficulty in meeting the first two requirements of irreparable harm and insufficient compensation by damages, already stressed by the Federal Circuit in *Apple V. Motorola*, meeting the third and fourth requirements is no easy task either. The potentially harmful impact an injunction might have on a

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60 See *Apple V. Motorola*, *supra* n. 54 at 70-73.

standard implementer – in particular in fast-moving markets and where exclusion from a standard is tantamount to exclusion from the market, as in mobile telecommunications – should be taken into account by courts when reviewing the third factor (balance of hardships). Moreover, the integrity of the standards-setting process and the effective access to standards by all businesses wishing to take a licence on FRAND terms are important public policy considerations that might weigh against granting injunctions in the context of standards-setting and against willing implementers.

It comes as no surprise that, to date, SEPs-holders have failed to get any injunctions for their patents and there is not a single case of injunction for a SEP been granted by US courts.<sup>61</sup> It is for that reason that antitrust authorities in the US have shown particular constraint and have intervened only in the very exceptional cases where opportunistic conduct could not be dealt with under contract or patent law.

### C. Exclusion Orders and the International Trade Commission

Although the US courts adjudicating SEPs' infringement cases have demonstrated remarkable flexibility thus resulting in pro-competitive litigation outcomes, an important qualification to this rule has emerged in the last few years; the International Trade Commission (ITC) and its power to exclude infringing products from importation to the US market. Under Article 337 Tariff Act, the ITC may grant exclusion orders against infringing imports, *'unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry'*.<sup>62</sup>

One might have expected the Commission to avail itself of such a broad public policy proviso in its examination of infringement cases involving SEPs. In particular, the examination of the effects of an exclusion order on the competitive conditions of the US economy and upon consumers, would allow for a flexible and economically informed application of

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61 See Gupta and Snyder, *supra* n. 5.

62 Tariff Act s. 337, 19 U.S.C. § 1337 (1930).

patent law and the remedies provided for by the Tariff Act in the standard setting framework.

However, the ITC in one of the most heavily commented and criticised cases involving SEPs, that between Samsung and Apple, failed to do so.<sup>63</sup> On the contrary, viewing itself as essentially unconstrained by the Supreme Court's *eBay* ruling and its implications for injunctive relief, the ITC in *Samsung* granted what essentially amounts to an injunction on SEPs reading on ETSI's 3G standard.<sup>64</sup>

The ITC disregarded the standards-setting context of the case, and in particular the commitment by Samsung to ETSI to license its 3G patents on FRAND terms in its analysis of the public policy clause of Section 337 (d)(1) Tariff Act. Instead, it reviewed the FRAND argument raised by Apple in the proceedings as an affirmative defence to the infringement and refused to undertake any further analysis of its implications for the competitive conditions on the market or the US consumers.<sup>65</sup> On the contrary, it considered the effects of the exclusion as negligible in view of the wide range of available competing devices.<sup>66</sup>

The ITC's unfortunate disregard of the anticompetitive effects of an exclusion order against a standard implementer willing to agree to a licence on FRAND terms had the potential to undermine the standards-setting process by offering a forum of choice for opportunistic SEPs' holders.<sup>67</sup> However, such danger was largely muted owing to a veto against the enforcement of the exclusion order by the US Trade Representative, acting

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63 See *In the Matter of Certain Electronic Devices, Including Wireless Communication Devices, portable Music and Data Processing Devices, and Tablet Computers*, Inv. No. 337-TA-794 (4 June 2013). Available at [http://www.usitc.gov/secretary/fed\\_reg\\_notices/337/337-794\\_notice06042013sgl.pdf](http://www.usitc.gov/secretary/fed_reg_notices/337/337-794_notice06042013sgl.pdf).

64 The facts of the case are virtually identical to those in the European litigation between the two parties, which will be further discussed below. It should be noted though that Samsung's demand of a royalty rate of 2.4% of the end product price was found unreasonable in all European forums apart from Germany and that the European Commission initiated a formal investigation resulting in Samsung offering binding commitments not to follow the disputed course of action in the future.

65 *Supra* n. 63, at 112 and accompanying note 22.

66 *Ibid.*

67 Florian Mueller, *Obama Administration vetoes ITC import ban of older iPhones and iPads over Samsung patent* (August 3, 2013). Available at <http://www.foss-patents.com/2013/08/obama-administration-vetoes-itc-import.html>.

on behalf of President Obama.<sup>68</sup> The Presidential veto challenged the ITC ruling on grounds of its effects on cooperative standardisation, citing the possibility of a patent hold-up as a particular concern.<sup>69</sup> The US Trade Representative further addressed a firm warning that future ITC rulings failing to examine thoroughly the context of voluntary cooperative standards-setting and the FRAND commitment would face a similar fate.<sup>70</sup>

#### D. Antitrust Enforcement by the DOJ and the FTC

Antitrust authorities have made clear that they will pursue cases of aggressive litigation of SEPs, in particular against the seeking of injunctions against willing licensees. What is remarkable in the authorities' enforcement activities, is that they have so far refrained from initiating proceedings on the basis of the most fundamental provisions of US antitrust law, i.e. Sections 1 and 2 Sherman Act. Instead, FTC has for the most part relied upon Section 5 FTC Act, against unfair methods of competition or unfair practices to the detriment of consumers and DOJ has initiated investigation on SEPs enforcement only once against Samsung which eventually did not lead to prosecution.

The FTC in its merger review in *Bosch/SPX* merger, imposed strict commitments on Bosch to refrain from “*initiating, or threatening to initiate, any Action demanding injunctive relief*” for SPX’s SEPs portfolio, unless against a clearly unwilling implementer.<sup>71</sup> In its public statement, the FTC issued a clear warning that in cases of seeking of injunctions against a ‘willing licensee’ the Commission “*can and will challenge this conduct as an unfair method of competition under Section 5 of the FTC Act*”.<sup>72</sup>

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68 See Veto Letter of US Trade Representative Froman to Chairman Williamson of the ITC (3 August 2013). Available at [https://ustr.gov/sites/default/files/08032013%20Letter\\_1.PDF..](https://ustr.gov/sites/default/files/08032013%20Letter_1.PDF..)

69 Ibid, at 2.

70 Ibid, at 3.

71 See FTC Consent Order, *In the Matter of Robert Bosch GmbH* (23 April 2013), at 13-14, available at <https://www.ftc.gov/sites/default/files/documents/cases/2013/04/130424robertboschdo.pdf>.

72 See Statement of the FTC, *In the Matter of Robert Bosch GmbH*, at 2, 3, available at <https://www.ftc.gov/sites/default/files/documents/cases/2013/04/121126-boschcommissionstatement.pdf..>

Section 5 FTC Act allows the Commission to bring either stand-alone or combined with Sherman Act violations action against businesses which, through methods of unfair competition/unfair practices, harm consumers. The FTC indeed applied its declared approach in its investigation against Google/Motorola which resulted in a Consent Decree imposing restrictive terms to Google in its litigation of Motorola's SEPs portfolio.

In particular, the FTC argued that opportunistic behaviour by SEP-holders might harm competition in the market for standard implementing products, reduce incentives for production of such products and potentially exclude important consumer goods to the direct detriment of consumers.<sup>73</sup> The Consent Decree allowed Google to file for injunctions if the potential licensee: (i) is outside the jurisdiction of US courts, (ii) refuses, in writing or sworn testimony a licence on FRAND terms, (iii) refuses to enter a licence agreement in terms set by court or arbitration and (iv) fails to provide a written response to a FRAND offer within thirty days.<sup>74</sup>

The FTC Consent Decrees in *Bosch* and *Google/Motorola*, although binding *inter partes* and not forming formal precedent against other SEPs-holders, are a clear indication of what SEPs-owners should expect in case they pursue injunctions against willing licensees, in breach of their FRAND commitment. However, it was also made clear that standard implementers cannot benefit from FTC's enforcement activities unless they are truly willing to enter into a FRAND license agreement.<sup>75</sup> The FTC Consent Decrees provide some guidance in this respect, though the FTC has refrained from providing an overall analytical framework for determining under which conditions the potential licensee would be deemed as 'willing'.

The DOJ on its part, although it has not yet pursued any case of injunctions for SEPs under the Sherman Act, in its Joint Statement with the USPTO has emphasised the real risk of hold-up in cases of exclusion or-

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73 See FTC *Letter to Commenters* (23 July 2013). Available at <https://www.ftc.gov/sites/default/files/documents/cases/2013/07/130724googlemotorolaletter.pdf>.

74 See FTC Consent Decree, *In the Matter of Motorola Mobility and Google* (23 July 2013), at 8. Available at <https://www.ftc.gov/sites/default/files/documents/cases/2013/07/130724googlemotorolado.pdf>.

75 See FTC *Letter to Commenters*, *supra* n. 73.

ders against ‘willing licensees’.<sup>76</sup> The two agencies expressed the view that a FRAND commitment affects the appropriate remedies in case of SEP infringement and injunctions or exclusion orders in this context are “*inconsistent with the public interest*”.<sup>77</sup> In a position similar to the one expressed by the FTC in its *Google/Motorola* Consent Decree, the Joint Statement admits that injunctions and exclusion orders for FRAND-encumbered SEPs might be appropriate “*in some circumstances*”, in general though the public interest is disserved in cases of injunctions against ‘willing licensees’.<sup>78</sup>

Conclusively, the antitrust authorities in the US seem willing to step in whenever there is a real danger that a standard implementer has fallen victim of opportunistic behaviour that might result in hold-up. Both the FTC and the DOJ share the view that generally, injunctions against potential licensees, willing to enter into a FRAND licence agreement, are anticompetitive. Remarkably, none of the two agencies has so far provided an analysis of anticompetitive harm based on the Sherman Act. Instead, the FTC, which has for the most part been responsible for antitrust intervention on injunctions for SEPs, makes full use of the flexibility provided by Article 5 FTC Act in order to pursue cases of opportunistic behaviour from SEPs-holders.

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76 The Joint Statement is mainly addressed at the US International Trade Commission in the context of section 337 of the 1930 Tariff Act; the two agencies nonetheless expressly stated that similar principles apply to the context of injunctions under the Patent Act. See USPTO-DOJ Joint Statement, *supra* n. 10, at 1.

77 *Ibid.* at 6.

78 *Ibid.* at 9.

