New Dimensions to the Patent Holdup Saga

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"PATENT HOLDUP" BY OWNERS OF standard-essential patents (SEPs) has been a significant antitrust concern of the Federal Trade Commission since at least the mid-1990s and of the Department of Justice since at least the mid-2000s. Both the term and the concern can be defined as the ability of a patent owner to extract higher royalties (or other more onerous license terms) than the owner could have obtained before its patented technology was incorporated into an industry standard.

Most of the focus has been on circumstances where the patent holder has evaded the patent policies of a standard-setting organization (SSO) intended to prevent holdup. These policies, for example, may require disclosure of SEPs during the SSO's standards development process or may require written commitments to license any such SEPs on reasonable and nondiscriminatory terms (RAND) (sometimes "FRAND" or "F/RAND" when "fair" is included) before the SSO publishes a standard incorporating the patented technology. More recent agency efforts have focused on the meaning of the RAND licensing commitment that the patent holder has made, particularly whether these commitments should bind subsequent owners of the affected patents and whether any such owners should be able to seek and obtain injunctive relief from a district court or an exclusion order from the International Trade Commission (ITC).

The last months of 2012 saw the agencies moving in a new, important, and perhaps underappreciated direction: instead of simply attacking patent owners' patent enforcement conduct, the agencies have turned to encouraging SSOs to consider a variety of patent policy revisions that may more effectively prevent holdup conduct. The DOJ in particular has offered six specific "suggestions" for enhancements to SSO policies. These suggestions warrant consideration (indeed some SSOs had already adopted some of the suggestions before they were made). Before offering our observations about them, we review the evolution of the agencies' activities in this area generally over the course of the past two decades as it may inform SSOs' own explorations of particular patent policy reforms.

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From *Dell* through *Rambus*

The FTC's first enforcement in this area was a 1996 complaint and consent order against Dell Computer Corporation.[1] The alleged antitrust violation was Dell's enforcement of a patent covering technology incorporated into an SSO's standard despite Dell's failure to comply with that SSO's policy of requiring ex ante disclosure of such patent interests. The FTC explained that "Dell failed to act in good faith to identify and disclose patent conflicts" during the standard-setting process; that adoption of the standard in question "effectively conferred market power upon Dell as the patent holder"; and that this conferral of market power was "not inevitable" because, had the SSO known of the Dell patent, the SSO "could have chosen an equally effective, non-proprietary standard."[2]

The FTC issued similar complaints against Rambus Inc. in 2002 and Union Oil Company of California (UNOCO) in 2003. *UNOCO* was settled with a 2005 consent order,[3] but *Rambus* became a massive administrative litigation. In 2006 the FTC issued a decision in *Rambus* with two key holdings. First, the FTC held that, by failing to disclose its patent interests during the standard-setting process as required by the JEDEC SSO's patent policy, Rambus had deceived JEDEC and its participants into incorporating Rambus's patented technologies into several JEDEC memory standards.[4] Second, the FTC held that this deception constituted "exclusionary conduct" that "significantly contributed to" Rambus's monopolization of the affected memory markets in violation of Section 2 of the Sherman Act.[5]

The D.C. Circuit reversed that decision in 2008, and the Supreme Court denied the FTC's petition for certiorari in 2009.[6] The court of appeals focused on the FTC's determination that, but for Rambus's deception in failing to disclose its patent interests, JEDEC would have *either* (a) refused to incorporate Rambus's technologies into the memory standards *or* (b) required Rambus to commit to RAND license terms before final action on those standards. In the court's view, the first of those outcomes would support a conclusion that the deception "caused" monopolization, but the second of those outcomes would not do so. The FTC's inability to determine which of those outcomes would have occurred was held to require reversal of the FTC's decision.[7] This reversal was a significant blow to the FTC's entire enforcement program in this area.[8]

It should be noted that the D.C. Circuit also expressed doubts about the FTC's finding that Rambus's nondisclosures actually violated JEDEC's patent policy.[9] The FTC in its own decision acknowledged that the JEDEC requirements are “not a model of clarity . . . .”[10] Both the FTC and the D.C. Circuit thereby joined the Federal Circuit and two district courts, as well as the FTC’s Administrative Law Judge who presided over the *Rambus* trial, in either expressly or implicitly criticizing JEDEC’s patent policy as “vague and ambiguous” with regard to its intended disclosure obligations.[11]

RAND Concerns and Ownership Changes

In 2006 and again in 2007, the DOJ had occasion to focus on similar weaknesses in another common kind of SSO patent policy: requirements for ex ante RAND license commitments from participants seeking incorporation of their patented technologies into draft standards. Believing such commitments were not sufficiently specific to provide meaningful protection against ex post holdup, the VITA SSO applied for a Business Review Letter with respect to a proposed new policy that would require an owner of a patent that may become essential to comply with a VITA standard to disclose during the standard-setting process the maximum royalties it would charge and the most restrictive other terms it would impose if a license to its patent did become essential to comply with a standard under consideration. In its October 2006 response, the DOJ described the proposed policy as “an attempt to preserve competition and thereby to avoid unreasonable patent licensing terms that might threaten the success of future standards and to avoid disputes over licensing terms that can delay adoption and implementation after standards are set.”[12] Six months later, in April 2007, the DOJ similarly stated its intention not to challenge a proposed new policy of IEEE, the largest and most influential developer of technology standards in the United States, under which IEEE would permit (but not require) similar ex ante declarations of maximum royalty rates and most restrictive other license terms.[13]

Also in 2007, the DOJ and FTC jointly issued a report on several topics at the intersection of antitrust and intellectual property law. One chapter was devoted to “Competition Concerns When Patents Are Incorporated into Collaboratively Set Standards.”[14] The agencies’ report discussed the provocative idea of “joint ex ante negotiation of licensing terms” as another means of overcoming deficiencies in traditional RAND commitment policies. The agencies noted potential anticompetitive risks that joint negotiations might entail: spillover into royalty fixing among competing patent licensors or price fixing among competing sellers of standardized products as well as potential “monopsony” effects from concerted action among licensees.[15] But the agencies also recognized how collaborations of this kind “as part of the standard-setting process” could “mitigate the potential for IP holders to hold up those seeking to use a standard by demanding licensing terms greater than they would have received before their proprietary technology was included in the standard.”[16] The agencies, therefore, concluded that “[g]iven the strong potential for procompetitive benefits, the Agencies will evaluate joint ex ante negotiation of licensing terms pursuant to the rule of reason.”[17]

In 2008, the FTC challenged another aspect of patent holdup: laundering patents to escape patent commitments. In *N-Data*,[18] a patent owner had made an ex ante commitment to license its patent for $1000 if the IEEE incorporated the covered technology into an important pending draft standard. Some years after the technology had been incorporated into the standard, the patent owner transferred the patent to another party that then transferred it to N-Data. N-Data allegedly reneged on the commitment and sought to enforce the patent for its full ex post value. In the complaint accompanying a consent order, the FTC charged that this conduct constituted an “unfair method of competition” and an “unfair act or practice” under Section 5 of the FTC Act, avoiding the Sherman Act causation issue that led the D.C. Circuit to overturn the FTC’s decision in *Rambus*.[19]

In 2011, the FTC conducted a workshop on standard-setting issues, inviting comments on a wide range of issues “arising from the incorporation of patented technologies in collaborative standards” with particular reference to “the risk of patent ‘hold-up’ and its effect on competition and consumers.”[20] Implicit in many of the more specific issues on which the agency sought input was the suggestion that many existing SSO patent policies may not be up to the task of effectively protecting against holdup outcomes: why SSOs “adopt policies that may lead to incomplete disclosure of relevant patents”; whether “RAND licensing commitments without accompanying disclosure commitments provide adequate protection against patent hold-up”; under what circumstances should a RAND commitment “bind later owners of the patent,” and what steps “can or should SSOs take to ensure that a transferred patent remains subject to a prior RAND commitment.”[21]

Other questions might properly have been addressed to the FTC and DOJ themselves: to what extent do “concerns about antitrust liability deter ex ante disclosure or negotiation of licensing terms” and “[w]hat considerations should shape a rule of reason analysis of joint ex ante license discussions or negotiations?”[22] Still other questions could have been posed to the ITC and the American judiciary: whether a RAND commitment should “preclude a patent owner from seeking in patent litigation” a preliminary or permanent injunction or an ITC exclusion order “against practice of the standard.”[23] All of these issues were addressed in contentious and conflicting ways in the workshop presentations and in written comments.

New Owners Seeking Injunctions and Exclusion Orders

In 2011, the DOJ investigated two transactions involving transfers of major patent portfolios that included large arrays of wireless device SEPs subject to F/RAND commitments: (a) the Google acquisition of Motorola, and (b) acquisition by the “Rockstar” consortium—co-owned by Apple, Microsoft, and four other firms—of the Nortel patent portfolio from the Nortel bankruptcy proceeding. In February 2012, the DOJ issued a statement explaining its decision to close both investigations.[24] The DOJ statement highlighted the agency's "in-depth analysis into the potential ability and incentives of the acquiring firms to use" those SEPs "to foreclose competitors."[25] The DOJ reported that during the course of the investigation the acquiring parties publicly promised to adhere to the existing FRAND commitments and, in some cases, also promised "not to seek injunctions in disputes involving" the patents at issue.[26] The statement acknowledged that "SSO F/RAND requirements have not prevented significant disputes from arising in connection with the licensing" of such patents, "including actions by patent holders seeking injunctive or exclusionary relief that could alter competitive market outcomes."[27]

In that light, both investigations "focused on whether the acquiring firms would have the incentive and ability to exploit ambiguities" in the SSOs' F/RAND requirements to hold up rivals, again "particularly through the threat of an injunction or exclusion order."[28] The statement expressed satisfaction with Apple's as well as Microsoft's new promises to adhere to the existing F/RAND commitments, including promises not to seek injunctive or other exclusionary relief. The DOJ found Google's more qualified promise to be "less clear," and stated that "how Google may exercise its patents in the future remains a significant concern."[29] Although it ultimately cleared the two acquisitions, the DOJ emphasized its continuing concerns about the potential for the acquirers to make "inappropriate use of SEPs to disrupt competition" and its intention to "continue to monitor the use of SEPs in the wireless device industry . . . ."[30] In short, in this statement, the DOJ signaled no less than three major concerns regarding SEPs subject to outstanding F/RAND commitments: ambiguities in the whole F/RAND structure; uncertainty over the extent to which prior owners' licensing commitments would bind acquirers of SEPs; and whether SEP owners (new or otherwise) would deem themselves free to seek injunctions or exclusion orders in litigation over these patents.

Over the ensuing months of 2012, in FTC comments to the ITC and in both FTC and DOJ testimony before Congressional antitrust subcommittees, the agencies expressed strong disapproval of the possibility that a SEP owner could obtain an ITC exclusion order against imports of products infringing SEPs that were subject to FRAND commitments.[31] In its January 2013 action against Google/Motorola, the FTC staked out the position that any such owner's efforts to obtain either that relief from the ITC or an injunction from a district court may violate Section 5 of the FTC Act. The consent order entered in that matter solidified three agency positions. First, it reaffirmed that a FRAND licensing commitment is irrevocable as long as the relevant standard is in effect.[32] Second, it reaffirmed that a FRAND licensing commitment is binding upon assignees.[33] Third, it largely precludes Google/Motorola from seeking an exclusion order or injunction based on SEPs subject to FRAND commitments. There are exceptions to this prohibition if, in particular, an implementer refuses to take a license under any circumstances or on terms determined by a court or arbitrator to be consistent with the RAND commitment. Importantly, however, an implementer retains the right to challenge validity, essentiality, value, or infringement.[34]

Also in January 2013, the DOJ and USPTO issued a joint "Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments."[35] The statement was mainly directed at urging the ITC to exercise "caution" with regard to the grant of exclusion orders in cases before it involving infringement of SEPs subject to F/RAND commitments.[36] After explaining that the purpose of FRAND commitments is to protect against patent holdup, the agencies argued that the holder of a SEP subject to such a commitment that sought an exclusion order could be seen as thereby attempting "to pressure an implementer of a standard to accept more onerous licensing terms than the patent holder would be entitled to receive consistent with the F/RAND commitment."[37] The agencies argued that an exclusion order in those circumstances "may be inconsistent with the public interest" and it "may harm competition and consumers by degrading one of the tools" SSOs employ "to mitigate the threat" of holdup conduct.[38]

Affirmative Suggestions to SSOs

In an October 2012 speech, Deputy Assistant Attorney General Renata Hesse announced a new focus on how SSOs could more effectively protect their standards from holdup outcomes through some modifications of their patent policies.[39] She began by observing that "standards bodies, and their members, have long-recognized the inherent ambiguity" of a RAND commitment—"after all, what do 'reasonable' and 'non-discriminatory' actually mean?"[40] Noting the VITA and IEEE reforms that were the subject of 2006–2007 Business Review Letters, she observed that "there has been little inclination among standards bodies to follow VITA's and IEEE's lead regarding *ex ante* licensing disclosures."[41] She stated that "the division is ready to enforce the antitrust laws against standard-setting activities that harm competition" but did not indicate the kinds of activities she had in mind or the potential targets of any ensuing enforcement action.[42] She also announced that "the division has identified" six changes to SSO patent policies "that could benefit competition by decreasing opportunities to exploit the ambiguities of a F/RAND licensing commitment."[43] She emphasized that those changes are only "suggestions" for SSOs' consideration,[44] and we discuss each of them below in that spirit.

A December 2012 interview with the Director of the FTC's Bureau of Economics, Howard Shelanski, indicated that the FTC may view those suggestions as more than that. Asked to comment on the suggestions, Shelanski responded that "there is probably general agreement about the need for better practices at the SSO level" to avoid "problems that we very often find ourselves dealing with here at [the FTC]"; that "in a lot of cases . . . the SSO agreements are quite unclear about what has actually been agreed to"; that "SSOs do not do a good enough job" and this is "part of why we have ex post holdup disputes"; "SSOs should be pushed to adopt clearer and better agreements"; "the balance at this point is too far skewed toward vagueness, so that we may in fact not have the confidence we want to have as antitrust enforcers that the procompetitive benefits of these SSOs on the front end . . . outweigh the exclusionary outcomes ex post through possible abuses of FRAND commitments."[45]

Neither Hesse's speech nor Shelanski's interview mentioned *American Society of Mechanical Engineers v. Hydrolevel Corp.*,[46] but that thirty-one-year-old Supreme Court decision exposes SSOs to antitrust liability in some circumstances. *Hydrolevel* established that an SSO can be liable for anticompetitive harm that occurs as a result of the SSO's failure to implement procedures adequate to preventing certain abuses of its processes. As the Court observed, "[A] standard-setting organization . . . can be rife with opportunities for anticompetitive activity"; "a rule that imposes liability on the standard-setting organization—which is best situated to prevent antitrust violations through abuse of its reputation—is most faithful to the congressional intent that the private right of action deter antitrust violations."[47]

That decision remains the law today,[48] as demonstrated by the *Trueposition* case. There, a district court in October of last year denied a motion to dismiss an SSO as an antitrust co-defendant based on allegations that volunteers abused their positions of authority as working group chairs within the SSO.[49] Neither *Hydrolevel* nor *Trueposition* deals with patent policies or holdup, nor do they require an SSO's adoption of any particular patent policy of the kind highlighted in the Hesse speech. But they do serve as a reminder of the broader legal context in which SSOs operate and of SSOs' need to protect the integrity of their processes.

The Hesse Suggestions

■ ***"Establish procedures that seek to identify, in advance, proposed technology that involves patents which the patent holder has not agreed to license on F/RAND terms and consciously determine whether that technology should be included in the standard."***[50]

In an ideal world, both patent holders and SSOs would have complete knowledge of all patents that may become essential to a standard (depending on the participants' technology choices) and would know whether each of the patent holders has made a F/RAND commitment. In the real world, however, developing that information can entail significant costs. For a patent holder, the cost of determining the entire universe of such patents within its control would likely require a comprehensive patent search, as well as serious consideration of the patent holder's business interests relating to significant patents. SSOs or SSO participants that receive this knowledge may then have to incur the costs of obtaining patent validity/infringement opinions to determine which of the patents in question are in fact likely to be essential. SSOs considering this recommendation should consider whether those costs can be determined in any meaningful way, and whether the costs might reduce incentives to participate in standards development.

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Even if neither the patent holder nor the SSO wants to incur the costs of determining the universe of potential SEPs, however, that does not mean a patent holder should be deprived of the opportunity to withhold patents from a licensing commitment. A patent holder might strongly prefer that its patented technology *not* become standard-essential.[51] An SSO therefore might provide an explicit mechanism for patent holders (whether they otherwise participate in the SSO or not) to identify such potential SEPs. If a patent holder has been given (or otherwise has) notice of a standard development activity that may result in products that read on its patent, and the patent holder does not inform the SSO of the patent that the holder wants to protect, or simply does not respond to a request to identify patents and disclose its licensing intentions, then that omission may be a factor that a court considers in deciding whether to issue an injunction—even in the absence of a FRAND commitment.

SSO disclosure obligations, moreover, need not be perfect or unqualified to be preferable to a policy imposing no such obligation. The VITA policy, for example, requires each Working Group Member to disclose all patents and patent applications of his or her company that he or she "believes" to contain claims that may become essential "after the [Working Group] Member has made a good faith and reasonable inquiry into the patents and patent applications the VITA Member Company (or its Affiliates) owns, controls or licenses."[52] An implementation plan accompanying the policy provides guidance on what a good faith and reasonable inquiry may entail. It says, for example, that the obligation "does not require a [Working Group] Member to search the . . . Company's patent databases"; rather, it may suffice for the Working Group Member to "identify, contact and discuss the [draft standard] with: (1) individuals at the VITA Member Company who are experts in the relevant subject area; and (2) the company's attorneys responsible for the patent work in the relevant subject area."[53]

■ ***"Make it clear that licensing commitments made to the standards body are intended to bind both the current patent holder and subsequent purchasers of the patents and that these commitments extend to all implementers of the standard, whether or not they are a member of the standards body."*** [54]

Unlike some of the others, the first part of this suggestion is fairly simple and straightforward. If licensing commitments do not bind successors, a patent holder has an incentive to transfer patents to a party that is not bound, thus creating the ability to extract supracompetitive royalties that can be allocated (through the purchase price) between the original holder and its assignee. In other words, it quite clearly should not be the case that a patent can be laundered to remove the commitment. But clarity in an SSO policy could help avoid senseless litigation over the issue and also create incentives for patent transferors to take steps to make transferees aware of the commitments in question. Indeed, the FTC's Google-Motorola consent order provides a further reason for SSOs to review their policies on irrevocability; that order permits Google/Motorola to "withdraw or modify a FRAND Commitment if such withdrawal or modification is expressly permitted by the SSO to which the FRAND Commitment was made."[55]

Both IEEE and VITA adopted provisions five years ago to make clear the binding effect of licensing commitments on subsequent owners. IEEE, for example, now requires that a patent holder provide any assignee or other transferee with notice of the patent commitment made to IEEE. The notice can be either through a "Statement of Encumbrance" (a statement that the patent is transferred "subject to any encumbrances that may exist as of the effective date of such agreement" expressly including any licensing commitment to IEEE) or by more directly binding any such assignee or transferee to the terms of the commitment. Moreover, the patent holder must require its assignee or transferee to agree to provide that same notice to its own assignees or transferees and to require that they in turn provide it to their assignees or transferees.[56]

The second part of this Hesse suggestion, the idea that "license commitments extend to all implementers of the standard whether or not they are a member of the standards body," makes good sense in light of the fundamental competition policy considerations surrounding "open" standards processes to which SSOs are generally committed. The ability to implement industry standards is ordinarily necessary to participate as a viable competitor in the product market or markets created or evolving from those standards. As the Supreme Court cautioned in *Allied Tube & Conduit Corp. v. Indian Head, Inc.*,[57] antitrust concerns about SSO activity require "the existence of safeguards sufficient to prevent the standard-setting process from being biased by members with economic interests in restraining competition."[58] Most SSOs want their standards to be adopted as widely as possible, and the benefits of their license commitments to apply equally to members and nonmembers.[59] In any event, an "association cannot validate the anticompetitive activities of its members simply by adopting rules that fail to provide such safeguards."[60] These admonitions can be read to suggest that an SSO's rules on license commitments should protect all interested rivals—members and nonmembers alike—from anticompetitive holdup conduct.

■ ***"Give licensees the option to license F/RAND-encumbered patents essential to a standard on a cash-only basis and prohibit the mandatory cross-licensing of patents that are not essential to the standard or a related family of standards, while permitting voluntary cross-licensing of all patents."*** [61]

This suggestion appears to rest on the premise that it is not reasonable (and thus not consistent with a F/RAND commitment) to condition a license to SEPs on the licensee's cross-license of non-SEP patents. (Conditioning a SEP license on the licensee's grant of a cross-license on *its own* SEPs relating to the same standard, however, is obviously a different matter.) There is no clear precedent for this suggestion, but it is an understandable enforcement agency position: conditioning a SEP license on a cross-license of non-SEPs may compel the licensee to forgo a well-earned competitive advantage from "differentiating" patents that are the product of procompetitive innovation investment. The agencies might argue that allowing such conditions would stifle or reduce competitive innovation incentives.

This suggestion, however, meets at least two practical impediments. First, the parties may not agree on whether a patent (in either side's portfolio) is essential. Indeed, sometimes a patent holder will argue that its patent is not essential, and the implementer will argue that it is essential. Second, if the patent holder has multiple relevant patents in its portfolio, it may be more efficient for the parties not to have to determine exactly which patents are essential. So while the concept of a cash-only license may make theoretical sense, in practice it also may require the SSO to develop procedures for determining essentiality or otherwise resolving patent disputes.

■ ***"Place some limitations on the right of the patent holder who has made a F/RAND licensing commitment who seeks to exclude a willing and able licensee from the market through an injunction."*** [62]

This suggestion is a mild version of the steadily increasing hostility from both the DOJ and FTC over the past year to the idea that an owner of a FRAND-encumbered SEP can obtain an injunction (instead of a reasonable royalty). As Hesse observed in her October speech: "[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."[63] In that light, she suggested it would be appropriate "to limit a patent holder's right to seek an injunction to situations where the standards implementer is unwilling to have a neutral third-party determine the appropriate F/RAND terms or is unwilling to accept the F/RAND terms approved by such a third-party."[64]

Many SSO policies have long required a member whose patented technology is incorporated into a draft standard to agree to license that technology to all interested parties on F/RAND terms. That commitment could be clarified by a further statement in the policy itself (or in the SSO's licensing commitment template if its use is mandatory) to the effect that this commitment precludes any demand or request for, or acceptance of, injunctive relief against any party using the technology in question to implement the standard. To fully meet agency concerns, the language would expressly preclude not only an injunction in district court litigation but also any exclusion order or cease-and-desist order in an ITC proceeding.

Before adopting such a policy, however, an SSO should consider two points. First, there is a sense in which the availability of injunctive relief is not an SSO issue but a judicial and agency issue.[65] (Indeed, the January 2013 joint statement from DOJ and the USPTO is more directed to the courts and the ITC than to SSOs.[66]) After *eBay*,[67] courts must weigh the equities instead of enjoining sale of an infringing product as a matter of course. Whether or not it is dispositive in all circumstances, a F/RAND licensing commitment is unquestionably an equitable factor that a court must consider. (Even without a F/RAND commitment, a patent's essentiality to implementation of a standard is an equitable consideration, although obviously of a different weight than with a F/RAND commitment.) One approach an SSO might take, therefore, is simply to state that an injunction should normally be unavailable absent unusual or extraordinary circumstances.

Second, if an SSO chooses to address injunctive relief more specifically, then it should give thoughtful consideration to those exceptional circumstances (if any) in which injunctive relief may be available. For example, the Hesse speech suggests a narrow exception if "the standards implementer is unwilling to have a neutral third-party" determine F/RAND terms or unwilling to accept the F/RAND terms that such a third-party approves,[68] and the DOJ/PTO Policy Statement identifies this and other such exceptions. These exceptions, however, should not be understood to enable the patent owner to seek injunctive relief against any implementer daring to litigate over patent validity or patent scope before acquiescing in a F/RAND license.[69]

One common argument of patent holders is that availability of injunctive relief is the only thing that brings implementers to the negotiating table. If a patent is valid, infringed, and subject to a RAND licensing commitment, then its owner is entitled to a reasonable royalty. That reasonable royalty, however, may be significantly less than what the implementer would be willing to pay if faced with the alternative of an injunction or exclusion order that prevents it from selling any product compliant with an industry-wide standard. In any event, the threat of patent infringement litigation seeking damages and a reasonable royalty award going forward should ordinarily be sufficient to bring the alleged infringer to negotiations.

■ ***"Make improvements to lower the transactions cost of determining F/RAND licensing terms. Standards bodies might want to explore setting guidelines for what constitutes a F/RAND rate or devising arbitration requirements to reduce the cost of lack of clarity in F/RAND commitments. VITA's patent policy, for example, creates an arbitration procedure to resolve disputes over members' compliance with the patent policy."***[70]

The idea of reducing transaction costs has obvious merit, but this suggestion runs into two practical considerations. First, an SSO generally wants to maintain its neutrality among participants and between implementers and patent holders. (Neutrality as between implementers and patent holders may not be as much of a concern at SSOs that develop open-source or royalty-free standards.) Second, the expertise of a typical SSO is in process. In some SSOs, the governing body and the staff may also have expertise in the technical area of that SSO's standards, but more typically the expertise that enables development of the standards resides in the volunteers who participate in working groups. In any event, an SSO should not be expected to have expertise in market rates for patent licenses. Thus, the suggestion of issuing guidelines may require (depending on the level of specificity that the guidelines provide) an SSO to develop a capacity that it does not currently have.

Both of these concerns point toward creating structures or methodologies rather than specific substantive guidelines on rates and other license terms. Hesse identified an SSO's establishment of an arbitration process as one option. Other possibilities include:

- An SSO might establish a neutral structure to facilitate "joint ex ante negotiation of [actual] licensing terms," again an idea that the agencies discussed in their 2007 Antitrust-IP Report.[71]
- An SSO might sponsor or otherwise facilitate formation of a patent pool either before or after a standard is adopted. A variant on this would be to require ex ante disclosures from patent holders of whether they will participate in a patent pool (and which one).
- An SSO might serve as a clearinghouse for information on licensing terms. This would require input from either licensors (who may not want to share the information) or licensees (who may be bound by confidentiality provi-

sions that limit the information they can disclose).

- An SSO could develop guidelines that announce general principles. For example, an SSO could provide guidance as to the date as of which the "reasonableness" of a royalty should be determined or that royalties should be determined on a "smallest component" rather than "total market value" measure.[72] Guidelines might also address such other terms as the appropriate scope of grantbacks and other reciprocal license requirements, defensive suspension or termination rights, and non-assert provisions.

Arbitration. For SSOs that prefer an arbitration approach, either in addition to or in lieu of the guidelines idea, Hesse has suggested consideration of VITA's provisions. The VITA policy specifies that any member who believes a Working Group Member has not complied with its obligations, "including but not limited to" the general obligation to grant licenses on F/RAND terms, "may" submit its claim in this respect to the applicable Working Group Chairperson. If the claim is not resolved informally at that level within fifteen days, the Working Group Chairperson will commence a three-person arbitration procedure. The three-person panel will submit a "Recommendation" on the dispute to the VITA Executive Director within forty-five days; he will consult with the VITA Board and render a Decision on the dispute within the ensuing fifteen days. Any VITA Member may request reconsideration and the Board will thereupon reconsider and render a "Final Decision" within the ensuing thirty days. All Members "are expected to accept either the Executive Director's Decision or, if there is reconsideration, the Final Decision as a final and binding determination of the dispute . . . ."[73] (The FTC's Google-Motorola consent order provides for arbitration as one mechanism for resolving disputes over license terms.[74])

Guidelines. The federal district court currently adjudicating Microsoft's breach of contract suit against Motorola is likely to provide important input for the evolution of F/RAND guidelines when it ultimately renders a decision on the parties' sharply conflicting arguments over "reasonable" royalties for licenses to Motorola's SEPs relating to two major industry standards. Microsoft argues that "core RAND principles" include prevention of holdup and stacking problems,[75] recognition of non-royalty benefits of standardization to the patent owner, and consideration of the marginal or incremental value of the patented technology compared to available ex ante alternatives; Microsoft also argues that patent pool royalties "provide real-world comparables for RAND valuation."[76] In contrast, Motorola argues for application of the longstanding "Georgia Pacific factors" to a "hypothetical bilateral negotiation," but also urges heavy reliance upon actual ex post negotiated bilateral licenses as the "best benchmark."[77]

The parties' post-trial briefs also present sharply conflicting perspectives on what the economic and technical expert testimony established with regard to the actual value of the patented technology at issue to the standards in question and to the Microsoft products that implement those standards. The court's decision in the months ahead may provide an important precedent of direct relevance to the determination of F/RAND royalty rates in a wide variety of industry situations.

"Consider ways to increase certainty that patent holders believe that disclosed patents are essential to the standard after it is set. The number of 'essential' patents encumbered by F/RAND licensing commitments at certain standards bodies has increased exponentially in recent years."[78]

This surely is the most difficult of the six suggestions to address. As Hesse elaborated in her speech, it is "in everyone's interest for the scope of disclosure to be broad before a standard is set in order to maximize opportunities to avoid holdup after the standard is set"; on the other hand, "recent litigation . . . has demonstrated that a number of patents declared essential to a standard are not, in fact, essential to that standard because standards-compliant products did not infringe them."[79] In other words, an SSO's F/RAND licensing requirements should apply at the outset to the entire universe of potentially essential patents but also should winnow out those patents that are later acknowledged not to be essential. The winnowing is good from the standpoint of both the patent owner—reducing the number of patents it "must" offer to license—as well as from the standpoint of the standard implementer—reducing the number of patents as to which it "must" pay to license.

A partial solution could take the form of a post-standard-adoption recertification of a patent owner's essentiality declaration. For example:

- If a patent holder has declared a specific patent essential, then before commencing litigation or seeking licenses, it must recertify, after reasonable further inquiry, that it continues to believe its patent to be essential for implementation of the standard as adopted.
- If a patent holder has declared that it has essential patents but has not previously identified specific patents, then before commencing litigation or seeking to license any patents relating to implementations of a standard, it must identify, after reasonable further inquiry, those patents that it believes essential.
- In either event, the patent holder must submit a statement of reasons for essentiality—a statement that would bind the patent holder in all future litigation.
- If a patent holder seeks to license or enforce a patent that it has not declared essential, and an implementer claims that the patent is nevertheless essential, then the patent holder must undertake the certification process described above.

Another solution might be to borrow a practice from patent-pool formation. A patent pool typically engages an independent expert to determine whether a patent is essential for implementation of the standard giving rise to pool formation, and only essential patents are taken into the pool.[80] If an SSO sponsors or otherwise facilitates formation of a patent pool, then the SSO could require that the pool's essentiality (and non-essentiality) determinations be made public—and possibly even binding. An SSO could also create an essentiality determination process separate from any given patent pool (or even without a patent pool at all); this process could use an "inquisitorial" model (such as is found in the adjudicative process in civil law systems) or an adversarial model (such as is found in common-law systems). The determination could be made early on, independent of any particular implementer, or it could be offered in an arbitration context.

Conclusion

When SSOs consider protections for implementers, they must also consider costs to patent holders and incentives to patent holders and implementers to participate in standards development. Each of the six Hesse suggestions would impose burdens on patent holders, and in some instances the combination of those burdens might be enough to discourage patent holder participation in standards development. Moreover, some of these proposals might require significant funding, and an SSO must consider business models that would generate the funds without jeopardizing the SSO's basic standards development mission. On the other hand, thoughtful implementation of some, if not all, of these suggestions should mitigate the rising concern at both antitrust agencies about patent holdup relating to standards development activities; and that mitigation should be beneficial to patent-owning SSO participants. ■

1 Dell Computer Corp., 121 F.T.C. 616 (1996).

2 *Id.* at 624 & n.2.

3 Union Oil Co. of Cal., FTC Docket No. 9305, Decision and Order (Aug. 2, 2005), *available at* http://www.ftc.gov/os/adjpro/d9305/050802do.pdf.

4 Rambus Inc., FTC Docket No. 9302, Commission Opinion on Liability at 67–68 (Aug. 2, 2006), *available at* http://www.ftc.gov/os/adjpro/d9302/060802commissionopinion.pdf.

5 *Id.* at 68, 118.

6 Rambus Inc. v. FTC, 522 F.3d 456 (D.C. Cir. 2008), *cert. denied*, 129 S. Ct. 1318 (2009).

7 *Id.* at 463–67.

8 *See generally* Robert A. Skitol & Kenneth M. Vorrasi, *Patent Holdup in Standards Development: Life After* Rambus v. FTC, ANTITRUST, Summer 2009, at 26–33.

9 Rambus Inc. v. FTC, 522 F.3d at 467–69.

10 Rambus Inc., Commission Opinion on Liability, *supra* note 4, at 52.

11 *See* Rambus Inc. v. Infineon Technologies AG, 318 F.3d 1081, 1098 (Fed. Cir. 2003); Hynix Semiconductor Inc. v. Rambus Inc., 441 F. Supp. 2d 1066, 1074 (N.D. Cal. 2006); Micron Tech., Inc., No. 00-792, 2006 WL 1653136, at 5 (D. Del. June 15, 2006); Rambus Inc., FTC Docket No. 9302, 2004 FTC LEXIS 17, at 582 (Feb. 23, 2004) (Initial Decision), *available at* http://www.ftc.gov/os/caselist/0110017/081124rambuspetvol2.pdf.

12 Letter from Thomas O. Barnett, Assistant Att'y Gen., U.S. Dep't of Justice, to Robert A. Skitol, Drinker Biddle & Reath LLP (Oct. 30, 2006), *available at* http://www.justice.gov/atr/public/busreview/219380.htm.

13 Letter from Thomas O. Barnett, Assistant Att'y Gen., U.S. Dep't of Justice, to Michael A. Lindsay, Dorsey & Whitney LLP (Apr. 30, 2007), *available at* http://www.justice.gov/atr/public/busreview/222978.pdf.

14 U.S. DEPT. OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION, ch. 2, at 33–56 (2007) [hereinafter 2007 ANTITRUST-IP REPORT], *available at* http://www.ftc.gov/reports/innovation/P040101PromotingInnovationandCompetitionrpt0704.pdf.

15 *Id.* at 50–53.

16 *Id.* at 56.

17 *Id.* at 56–57.

18 Negotiated Data Solutions LLC, FTC Docket C-4234, 2008 FTC LEXIS 119 (Sept. 22, 2008) (Complaint and Decision and Order), *available at* http://www.ftc.gov/os/caselist/0510094/080923ndsdo.pdf.

19 *Id.* For further discussion, see Michael A. Lindsay, *Safeguarding the Standard: Standards Organizations, Patent Hold-Up, and Other Forms of Capture*, 57 ANTITRUST BULL. 17, 45–47 (2012); Michael A. Lindsay, Negotiating Royalty or Other License Terms Before the Standard Is Set 12–14, Presentation to AIPLA Spring Meeting (May 13–15, 2009), *available at* http://www.dorsey.com/files/upload/lindsay_negotiating_royalties_AIPLA_spring09.pdf.

20 76 Fed. Reg. 28,036 (May 13, 2011).

21 *Id.* at 28,037–38.

22 *Id.* at 28,038.

23 *Id.* at 28,037–38.

24 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.

25 *Id.* at 1.

26 *Id.*

27 *Id.* at 3.

28 *Id.* at 4.

29 *Id.* at 5.

30 *Id.*

31 *See* Third Party United States Federal Trade Commission's Statement on the Public Interest, In re Certain Wireless Communication Devices, Portable Music and Data Processing Devices, Computers and Components Thereof, Inv. No. 337-TA-745 (June 6, 2012), *available at* http://www.ftc.gov/os/2012/06/1206ftcwirelesscom.pdf; Third Party United States Federal Trade Commission's Statement on the Public Interest, In re Certain Gaming and Entertainment Consoles, Related Software, and Components Thereof, Inv. No. 337-TA-752 (June 6, 2012), *available at* http://www.ftc.gov/os/2012/06/1206ftcgamingconsole.pdf; Statement of Joseph F. Wayland, Acting Ass't Att'y Gen., Antitrust Div., Before the Committee on the Judiciary, U.S. Senate, Regarding "Oversight of the Impact on Competition of Exclusion Orders to Enforce Standards-Essential Patents" (July 11, 2012), *available at* http://www.justice.gov/atr/public/testimony/284982.pdf; Prepared Statement of the Federal Trade Commission Before the United States Senate Committee on the Judiciary Concerning "Oversight of the Impact on Competition of Exclusion Orders to Enforce Standard-Essential Patents" (July 11, 2012), *available at* http://www.ftc.gov/os/testimony/120711standardpatents.pdf.

32 Motorola Mobility LLC and Google Inc., FTC File No. 121-0120, Decision and Order ¶ II.A, *available at* http://ftc.gov/os/caselist/1210120/index.shtm. This provision does not prevent Motorola from withdrawing a FRAND commitment to the extent permitted by an SSO's rules. *Id.* ¶ II.A at proviso iii.

33 *Id.* ¶ V.B.

34 *Id.* ¶¶ II.B, II.C, II.E. For another example, see Robert Bosch GmbH, FTC Docket No. C-4377, Complaint & Decision and Order (Nov. 26, 2012), *available at* http://www.ftc.gov/os/caselist/1210081/index.shtm.

35 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 (Jan. 8, 2013) [hereinafter DOJ/PTO Policy Statement], *available at* http://www.justice.gov/atr/public/guidelines/290994.pdf.

36 *Id.* at 8.

37 *Id.* at 6.

38 *Id.*

39 Renata Hesse, Deputy Assistant Att'y Gen., Antitrust Div., U.S. Dept. of Justice, Six "Small" Proposals for SSOs Before Lunch, Remarks as Prepared for the ITU-T Patent Roundtable (Oct. 10, 2012) [hereinafter Hesse Speech], *available at* http://www.justice.gov/atr/public/speeches/287855.pdf.

40 *Id.* at 6.

41 *Id.* at 7–8.

42 *Id.* at 10. In a later speech, Hesse appeared to focus on the potential Section 2 liability of a FRAND-committed SEP holder who "exercises the monopoly power that he or she acquired through participation in the standard-setting process in breach of the SEP owner's F/RAND commitment." Renata Hesse, Deputy Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, IP, Antitrust and Looking Back on the Last Four Years, Presented at Global Competition Review 2nd Annual Antitrust Law Leaders Forum (Feb. 8, 2013), *available at* http://www.justice.gov/atr/public/speeches/292573.pdf.

43 Hesse Speech, *supra* note 39, at 9.

44 *Id.* at 9–11.

45 Interview with Howard Shelanski, Director, FTC Bureau of Economics, ANTITRUST SOURCE, Dec. 2012, at 6–7, http://www.americanbar.org/content/dam/aba/publishing/antitrust_source/dec12_full_source.authcheckdam.pdf. Shelanski reiterated these same themes in an article co-authored with the chief economist of the European Commission's DG Competition and the former chief economist of the DOJ's Antitrust Division. Kai-Uwe Kühn, Fiona Scott Morton & Howard Shelanski, *Standard Setting Organizations Can Help Solve the Standard Essential Patents Licensing Problem*, CPI ANTITRUST CHRON., vol. 3 no. 1, Winter 2013 (Mar. 5, 2013). In the article the three economists stated that "[i]t is the actions of the SSO, a group of competitors jointly creating the standard, which create SEP market power," that SSOs "can substantially reduce the problem of hold-up and litigation . . . by reforming their IPR policies," and that SSOs "have the responsibility to ensure" that SEP holders' "market power is constrained so that consumers can benefit as much as possible from standard setting activity, and so that SEP owners cannot discourage innovation by engaging in hold-up." *Id.* at 3–4. They also embraced several of the six suggestions that Hesse had offered: binding future holders, providing a faster and lower-cost means of determining a F/RAND royalty, requiring a SEP holder to offer a cash-only license, and limiting a SEP holder's right to seek an injunction.

46 Am. Soc'y of Mech. Eng'rs, Inc. v. Hydrolevel Corp., 456 U.S. 556 (1982).

47 *Id.* at 571, 572–73.

48 One change, however, is that any such claim against an SSO may be assured of "rule of reason" treatment and the SSOs' exposure can now be limited to single rather than treble damages under the Standards Development Organization Advancement Act of 2004. Pub. L. No. 108-237, 118 Stat. 661, 15 U.S.C. §§ 4301 et seq.

49 Memorandum Opinion, Trueposition, Inc. v. LM Ericsson Telephone Co., Civil Action No. 11-4574 (E.D. Pa. filed Oct. 4, 2012). The authors take no position on whether *Trueposition* was correctly decided.

50 Hesse Speech, *supra* note 39, at 9.

51 A patent holder might hold a patent over a feature that the patent holder wants to use to distinguish itself in the marketplace; the patent holder may still want a standard, but it wants one that works around its feature (that is, a standard that is compatible with, but does not require use of, this part of the patent holder's technology). But that is a different case from what is discussed here.

52 VSO Policies and Procedures § 10.2.1, http://www.vita.com/home/VSO/vso-pp-r2d6.pdf.

53 *Id.* at app. 7, "Implementation Plan for VITA's Revised Patent Policy."

54 Hesse Speech, *supra* note 39, at 9.

55 Motorola Mobility LLC and Google Inc., FTC File No. 121-0120, Consent Order ¶ II.A at proviso iii, *available at* http://ftc.gov/os/caselist/1210120/index.shtm.

56 IEEE-SA Standards Board Bylaws §§ 6.1, 6.2, *available at* http://standards.ieee.org/develop/policies/bylaws/sb_bylaws.pdf.

57 Allied Tube & Conduit Corp. v. Indian Head, Inc., 486 U.S. 492 (1988).

58 *Id.* at 509.

59 An SSO that wants to qualify for protection under the Standards Development Organization Advancement Act, 15 U.S.C. § 4301 et seq., will want to assure that its processes are open. Here, however, the DOJ suggestion refers to openness of the output of the process rather than simply openness in the process itself.

60 *Allied Tube*, 486 U.S. at 509.

61 Hesse Speech, *supra* note 39, at 9.

62 *Id.*

63 *Id.*

64 *Id.* The FTC adopted that same position in its recent complaints and consent orders against Robert Bosch and against Motorola Mobility and Google. *See supra* note 32.

65 *Cf.* Apple, Inc. v. Motorola Mobility, Inc., 2012 WL 5416941, at 12–14 (W.D. Wis. Oct. 29, 2012) (holding that SSO policy did not contractually preclude seeking injunction but policy and equitable principles may nonetheless warrant a denial of such relief).

66 DOJ/PTO Policy Statement, *supra* note 35.

67 eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388 (2006).

68 Hesse Speech, *supra* note 39, at 9.

69 Some policy choices may have collateral effects. For example, a policy or legal rule that greatly reduces the availability of injunctions and exclusion orders (narrow rather than broad exceptions) may end up facilitating the creation of patent pools. If a patent holder cannot expect to extract the monetary value of a threatened injunction, then a patent pool's lower administrative costs become relatively more attractive.

70 *Id.* at 10.

71 2007 ANTITRUST-IP REPORT, *supra* note 14, at 53–56.

72 *See, e.g.*, FED. TRADE COMM'N, THE EVOLVING IP MARKETPLACE: ALIGNING PATENT NOTICE AND REMEDIES WITH COMPETITION, ch. 7, "Calculating Reasonable Royalty Damages," at 177–212 (Mar. 2011); Brief of Amici Curiae Altera Corp. et al., Apple Inc. v. Motorola, Inc., Nos. 2012-1548, 2012-1549 (Fed. Cir. filed Dec. 4, 2012).

73 VSO Policies and Procedures, *supra* note 52, § 10.5.

74 Motorola Mobility LLC and Google Inc., FTC File No. 121-0120, Decision and Order ¶¶ I.D, IV.B.2.

75 The reference to "stacking" refers to a serious royalty-stacking problem common to many standards situations: a standard as to which there are dozens or potentially hundreds of declared essential claims and as to which there are many unrelated patent owners. The royalty each owner may seek for a license to its patents may appear to meet a generally acceptable F/RAND test; the combination of them could effectively kill the whole standard. *See generally* Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991 (2007).

76 Plaintiff Microsoft Corporation's Post-Trial Brief at 2–13, Microsoft Corp. v. Motorola, Inc. et al., No. C10-1823-JLR (W.D. Wash. filed Dec. 17, 2012).

77 Defendants' Post-Trial Brief at 3–11, Microsoft Corp. v. Motorola, Inc. et al., No. C10-1823-JLR (W.D. Wash. filed Dec. 17, 2012).

78 Hesse Speech, *supra* note 39, at 10.

79 *Id.*

80 *See, e.g.*, Letter from Joel I. Klein, Assistant Att'y Gen., U.S. Dep't of Justice, to Carey R. Ramos, June 10, 1999, *available at* http://www.usdoj.gov/atr/public/busreview/2485.pdf; Letter from Joel I. Klein, Assistant Att'y Gen., U.S. Dep't of Justice, to Garrard R. Beeney, Dec. 16, 1998, *available at* http://www.usdoj.gov/atr/public/busreview/2121.pdf; Letter from Joel I. Klein, Acting Assistant Att'y Gen., June 26, 1997, *available at* http://www.justice.gov/atr/public/press_releases/1997/1173.pdf.