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Hold-Up and Injunctions in the Standard Setting Context: The Pendulum Swings Back

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By Carl W. Hittinger and Marc G. Schildkraut

Historically, new presidents often appoint officials that make modest policy changes to antitrust enforcement. President Joe Biden's July 9 executive order on promoting competition in the American economy suggested that the changes coming to antitrust enforcement are far more than modest. According to the fact sheet that accompanied the order, competition in the U.S. economy is in dire straits. In the executive order, Biden proposes a raft of initiatives at more than a dozen agencies to foster more competition across the economy. One of those initiates requested that the Attorney General and the Secretary of Commerce consider revising their "Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments."

Standards-Essential Patents (SEPs) refer to patents for technology that are necessary to meet a standard. The standard is typically the result of the work of a standard setting organization (SSO). SSOs are private groups, usually composed of industry participants, many of them competitors. When an SSO adopts a standard, it often requires the patent holder of the technology incorporated in the standard to promise to license the technology to those implementing the standard on fair, reasonable and nondiscriminatory terms (FRAND).

Given Adam Smith's admonition that "people of the same trade seldom meet together, … but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices," there is a long history of antitrust enforcement in the work of SSOs. Biden's request regarding the policy statement on remedies relates to one aspect of antitrust enforcement in the SSO space.

When a SSO incorporates patented technology in a standard, it may give the patentholder monopoly power that it did not have before the SSO adopted the standard. Prior to the standard, there may have been viable substitutes for the technology, but after the standard has been adopted, implementers of the standard may have to use the SSO's selected technology to produce a product that meets the standard. To prevent the patentholder from unduly exploiting its incorporation in a standard, SSOs sometimes require patentholders to disclose any patents incorporated in the standard and agree that they will license those patents on FRAND terms.

However, if the patentholder failed to disclose its patents and failed to commit to FRAND licensing terms, the patentholder may have induced the SSO to include the patentholder's technology in the standard when with full knowledge the SSO might have gone in another direction, perhaps selecting a competing technology where the patentholder of that technology had committed to FRAND licensing terms. In this scenario, implementers of the standard, (and ultimately consumers) might be "held up" by the patentholder, who forces the implementers to license the patented technology on non-FRAND terms.

In the first government-litigated case of this kind, the Federal Trade Commission charged Rambus Inc. with engaging in "a pattern of anticompetitive and exclusionary acts" in connecting with *Rambus*' participation in standard-setting of the Joint Electron Device Engineering Counsel (JEDEC). The FTC's key allegation was that *Rambus* failed to disclose it had patent rights regarding technologies that JEDEC was incorporating in a standard. *Rambus*' silence violated JEDEC's disclosure rules according to the FTC. See *In re Rambus*, Dkt No. 9302 ¶¶70-78, 121-123 (FTC complaint filed June 18, 2002). Eventually the FTC lost this case in the Court of Appeals. But the court concluded that such deception could violate the antitrust laws. See *Rambus v. FTC*, 522 F.3d 456, 464 (D.C. Cir. 2008). Another court similarly noted, that in cases of such deception, antitrust liability safeguards competition "during the critical competitive period that precedes adoption of a standard" where the deception might "bias the competitive process in favor of … a technology's inclusion in a standard." *See Broadcom v. Qualcomm, 501 F.3d 297, 314 (3d Cir. 2007).*

Given the concern about hold-up, in 2013, the Antitrust Division and the U.S. Patent and Trademark Office (USPTO) issued a joint Statement on Remedies for Standards Essential Patents Subject to Voluntary F/RAND Commitments. *U.S. Dep't of Justice & U.S. Pat. & Trade Off., Policy Statement on Remedies for Standards Essential Patents Subject to Voluntary F/RAND Commitments (Jan. 8, 2013).* The 2013 statement recognized that exclusionary remedies may be in the public interest in some circumstances, for instance, when a potential licensee refuses to take a license. The two agencies expressed the view that enjoining the alleged infringer from using FRAND-encumbered SEPs may harm competition by facilitating patent hold up.

Consistent with 2013 Statement on Remedies, in 2015, the Institute of Electrical and Electronics Engineers (IEEE) received a business review letter from the Antitrust Division with an affirmative response to a proposed IEEE policy that prohibited essential patent holders from seeking or obtaining injunctive relief for an implementers infringement of a SEP unless the infringer refused to comply with the outcome of infringement litigation, including an affirming first level appellate review. *See letter from Renata B. Hesse, Acting Assistant Attorney Gen., Antitrust Div., U.S. Dep't of Justice, to Michael A. Lindsay, Esq., partner, Dorsey & Whitney (Feb. 2, 2015) [hereinafter 2015 IEEE Letter.]*

The Trump administration's Assistant Attorney General for Antitrust had a different perspective on this issue, which he explained in several speeches and in certain actions, which he we will soon address. In an early speech as AAG, Makan Delrahim contrasted the potential competition issues facing "innovators" (the patentholders) and technology implementers (the SSOs and the producers of products incorporating the SSO standard). Delrahim discussed the hold-up problem and the "hold-out problem." The hold-out problem occurs when SSOs leverage their industry clout by "threatening to under-invest in the implementation of a standard utilizing the patented design or threatening not to take a license at all, until its royalty demands are met." Delrahim argued that the hold out problem was the greater concern because patent holders must "make an investment before they know whether that investment will ever pay off" while "at least some of [implementer's] investments occur after royalty rates for new technology could have been determined." Therefore, he worried mostly about SSO members leveraging their collective monopsony power to foist sub-competitive terms the holder of SEPs.

In a later speech, he went further, arguing that hold-up was not an antitrust problem at all because patent holders had no duty to deal with implementers under either antitrust or patent law. *See Makan Delrahim, Antitrust Law and Patent Licensing in the New Wild West, Remarks as Prepared for IAM's Patent Licensing Conference, Sept. 18, 2018.* If a patent holder promised to deal – to license on FRAND terms – the proper remedy lied under contract law. *See Makan Delrahim, Keynote Address at University of Pennsylvania Law School Philadelphia, Pennsylvania, March 16, 2018.* Delrahim feared that using antitrust to force dealing would, not only restrict patent holder's rights but would undermine innovation and dynamic competition. He further argued that in most circumstances, the patent holder could not mislead the SSO. Suppose the patent holder promised that it would abide by FRAND terms but did not mean it. When the patent holder attempted to hold up implementers, it would find itself on the losing end of a contract lawsuit. Delrahim did not argue that his analytical structure precluded an antitrust violation in the *Rambus*-type situation, where the SSO might have selected a different technology if the patent holder had disclosed its patents. But while "such a situation may occur on rare occasions, I remain skeptical that it does so with regularity, given that the principal goal of standard setting is to select the superior technology among competing alternatives." While the chairman of the Federal Trade Commission, Joseph Simons, agreed with Delrahim regarding the situation where the patent holder broke its FRAND promise and tried to hold up implementers. he did not brush off a *Rambus*-type situation, arguing that there could be an antitrust violation where the patent holder's "breach, fraud or deception contributes to the acquisition or maintenance of monopoly power in a properly-defined market …" *See Joseph Simons, Georgetown Law Global Antitrust Enforcement Symposium, Sept. 25, 2018.*

Given Delrahim's perspective on hold up, it came as no surprise when, in 2018, the Antitrust Division withdrew its support for the 2013 Statement on Remedies. A year later, the Antitrust Division, USPTO, along with National Institute of Standards and Technology (NIST), issued a new statement. *See U.S. Dep't of Justice et al., Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments, Dec. 19, 2019.* The 2019 statement advocated applying traditional remedies for the infringement of SEPs, with no special consideration for the standard setting context.

The Antitrust Division also sent a new letter to IEEE, adding some commentary on the 2015 IEEE Letter that addressed the SSO's policy regarding remedies for infringement of SEP. The division expressed concern about "reports that the 2015 Letter has been repeatedly and widely misconstrued and misapplied … Of greatest concern, IEEE and others have represented that the 2015 Letter is an endorsement of the policy by the department, which is incorrect." In its new letter, the Antitrust Division went on to explain that "hold-up was not "a real-world competition problem." *See letter from Makan Delrahim, Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, to Sophia A. Muirhead, Gen. Counsel & Chief Compliance Officer, IEEE, Sept. 10, 2020.*

Based on Biden's executive order, the new administration may disagree with Trump's former AAG and conclude that hold ups are a real world problem. On Sept. 29, 2021, Antitrust Division Economics Director of Enforcement- Jeffrey Wilder gave a speech titled "Level the Playing Field in the Standards Ecosystem: Principles for a Balanced Antitrust Enforcement Approach to Standards-Essential Patents." In that speech, he referenced Biden's executive order request for a review of the Policy Statement on Remedies and referenced judicial precedents such as *Rambus* and then opined, that such precedents:

> "serve as a check on hold-up power that arises when firms are already 'locked in' to using a particular standard. Once an implementer has committed to a standard, there is little it can do to counter an SEP holder's threat of exclusion. Small implementers that do not have the means to fight an infringement action are particularly vulnerable to hold-up strategies. Antitrust law ensures that the standard-setting process cannot be undermined by deceptive FRAND promises or other strategies that harm competition."

Wilder added that the Justice Department and Secretary of Commerce had already begun reviewing the remedies statement

and that we should “stay tuned.” He also addressed the division’s second letter to IEEE, which he described as “supplement advocacy” and which he characterized as “questioning the merits of the 2015 business review.” This, he indicated, could “shake the confidence in the business-review process … That is why the department acted this past April and removed the supplement advocacy from IEEE’s 2015 review file.” Stay tuned.

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