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Antitrust Division Issues Update to 2015 Business Review Letter on IEEE Guidance for Standard-Essential Patents

Update to 2015 Business Review Letter to IEEE Provides Further Evidence That the Antitrust Division Seeks to Have Market Forces—Rather Than Pre-Set Rules—Impact the Terms of Licenses for Standard Essential Patents

SUMMARY

In what it referred to as an “extraordinary step,” on September 10, 2020, the Antitrust Division of the U.S. Department of Justice (“Division”) issued a letter supplementing and updating a 2015 business review letter addressing the Institute of Electrical and Electronics Engineers’ (“IEEE”) patent policy. The update reinforces the Division’s view that: (1) holders of standard essential patents (“SEPs”) have the same right to seek injunctive relief as other patent holders; (2) reasonable royalties on SEPs can be determined “in a variety of ways,” and that the Division does not agree with a standard setting organization (“SSO”) mandating that royalty rates be based on the value of components or the smallest salable patent practicing unit (“SSPPU”), as contrasted with the value of end products; and (3) SEP policies should “encourage good-faith bilateral licensing negotiations,” without advantaging licensees over licensors.

BACKGROUND

The Division’s Business Review Letter (“BRL”) practice allows persons and organizations to seek guidance about the Division’s enforcement intention with respect to prospective conduct described by the BRL applicant. In response to a request, the Division may issue a BRL providing guidance with respect to the scope, interpretation and application of the antitrust laws to the proposed conduct. Under applicable regulations, guidance in a BRL is not binding on the Division and expresses no more than the Division’s

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current enforcement intentions with respect to the described conduct. Properly read, BRLs can provide guidance to the applicant and others about the manner in which the Division analyzes certain conduct under the antitrust laws. The Division has repeatedly made clear that BRLs do not set forth legal interpretations, but reflect current enforcement objectives.

The IEEE is an SSO that has promulgated standards for multiple consumer electronics and other products. The IEEE standards have been adopted by manufacturers to, among other reasons, ensure product compatibility across multiple manufacturers. The organization's patent policy requires an owner of patent rights that may be essential to IEEE-created standards to make certain commitments in order for the party to participate in an IEEE standard-setting process. In particular, the IEEE policy, similar to that of many SSOs, requires patent holders to license their SEPs on fair, reasonable and non-discriminatory (FRAND) terms. In 2014, the IEEE asked the Division to consider an update to the IEEE policy that prohibited SEP owners from (1) seeking injunctive relief unless the potential licensee refused to comply with "the outcome of infringement litigation," including an affirmance on appeal, or (2) referencing comparable third-party licenses during patent license negotiations if those licenses had been entered into under threat of an injunction. The proposed policy update also recommended that any FRAND royalty negotiated by a patent owner should be based on, among other things, the value of the SSPPU. In a BRL issued on February 2, 2015 ("2015 BRL"), the Division advised that it had no present intention to challenge the updated IEEE policy and stated the reasons it believed the policy was likely consistent with U.S. antitrust law.¹ Shortly thereafter, the IEEE updated its policy to reflect the changes discussed in the 2015 BRL.

On September 10, 2020, more than five years after its 2015 letter, the Antitrust Division issued an updated business review letter to the IEEE ("2020 BRL Update" or "Update"), signed by Makan Delrahim, the Assistant U.S. Attorney General in charge of the Division.²

THE ANTITRUST DIVISION'S SEPTEMBER 10, 2020 UPDATE TO THE 2015 BRL

The 2020 BRL Update began by recognizing that the Antitrust Division's action to "supplement, update, and append" the 2015 BRL was an "extraordinary step" that was justified because the 2015 BRL had been misused to suggest that the Division had "endorsed" the IEEE policy in 2015.³ The Update, however, went on to discuss substantially more than the proper interpretation of the 2015 BRL. The Update stated that the 2015 BRL—which had left the question of whether the IEEE patent policy was good for standards development and innovation to be determined by market forces and competition between SSOs—reflected an "outdated" analysis, and that the IEEE patent policy may be "discouraging participation in standards development at IEEE and possibly chilling innovation."⁴ As a result of the Division's current policy concerns, the 2020 BRL Update stated that interpretation of the 2015 BRL, by market actors and non-U.S. competition authorities, as supporting the IEEE patent policy "must stop."⁵

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The Update firmly rejected any set policy that limited the ability of SEP holders to obtain injunctive relief over potential infringers. The Update also repeated certain positions the Division has taken in speeches and amicus briefs, including that concerns over patent owner “hold-up”—the purported ability of patent owners to use market power to charge exorbitant rates for their SEPs—“have largely dissipated,” and that implementer “hold-out”—the purported refusal of infringers to accept a reasonable license by relying on delay and the lack of adverse repercussions that litigation and other options may entail—required more “attention” than had been given to the issue in the 2015 Letter.⁶ Likewise, and notwithstanding that the Update itself suggests that the Division has a legitimate role in dictating how negotiations should best proceed, the Division repeated its caution about using the antitrust laws to impact license negotiations, which the Division stated “are essentially contractual disputes between private parties.”⁷ Indeed, at an industry event on the same day the Update was issued, Assistant Attorney General Delrahim described the “theory” that a FRAND violation led to an antitrust violation as “radical.”⁸

According to the 2020 BRL Update, the ability to obtain injunctive relief “promotes dynamic competition by ensuring that there are strong incentives to invest in new technologies” and “is a critical enforcement mechanism and bargaining tool . . . that may allow a patent holder (including an [SEP] holder) to obtain the appropriate value for its invention when a licensee is unwilling to negotiate reasonable terms.”⁹ As a result, the Update claimed that since the issuance of the 2015 BRL, “courts have analyzed [SEPs] the same as they would other patents.”¹⁰ The Update also pointed out that in 2019 the Antitrust Division, in conjunction with the United States Patent and Trademark Office and the National Institute of Standards and Technology, had issued a Joint Policy Statement reflecting these agencies’ position that owners of SEPs should have the same rights, including with respect to injunctive relief, as owners of non-standard patents.¹¹

The 2020 BRL Update also addressed measures by which reasonable royalties may be calculated for SEPs under SSO FRAND policies. The Update rejected, as “not well-supported and [] not . . . accurate,” any claim that aspects of the IEEE policy focusing on licensing at the SSPPU were consistent with the “direction” of U.S. law.¹² Instead, the Update noted, “the case law on FRAND and patent damages has developed to include various means of determining royalties and damages.”¹³ In particular, the IEEE policy’s recommendation that parties use the SSPPU as a baseline to determine the FRAND rate “increases the likelihood that SSPPU will play an important—and potentially outsized—role in [licensing] negotiations” as compared to other legitimate ways of determining patent value, such as by using comparable licenses which use end-product revenue as a royalty base.¹⁴ Because there is “no single correct way to calculate a reasonable royalty in the FRAND context,” the Update suggested that any appropriate policy would not be limited to use of the SSPPU, and instead would give the parties “flexibility to fashion licenses that reward and encourage innovation.”¹⁵

Finally, the 2020 BRL Update noted that because the IEEE policy may not have properly balanced the interests of patentees and implementers, the IEEE should consider changes to its policy “to promote full

participation, competition, and innovation in IEEE’s standard setting activities.”¹⁶ The IEEE responded that it was “reviewing” the Update and that the “IEEE is and will continue to be committed to standards development activities that are open, balanced, transparent, and fully comply with U.S. laws and regulations.”¹⁷

IMPLICATIONS

While the 2020 BRL Update reflects the Division’s current views on injunctions and SSPPUs, the Update was, as the Division itself recognized, an extraordinary step. While the Update is consistent with the Division’s regular effort to avoid the misinterpretation of BRLs, the Update went far beyond BRL principles and confirmed that the Division takes a dim view of any SSO limiting the rights of patentees as a condition of SSO participation, though it failed to articulate a basis under the antitrust laws to challenge a patent policy chosen by an SSO. While the Division takes no issue with general FRAND policies, it has previously articulated the view that the antitrust laws may prevent collective action—such as that engaged in by SSOs—to determine with precision what “fair and reasonable” or “non-discriminatory” should mean in particular licensing negotiations. Clearly favoring wide latitude under the antitrust laws for patentees and implementers to conclude licenses on terms they conclude are FRAND under the specific relevant circumstances, the 2020 BRL Update may have been motivated by increasing standard setting activities outside the United States and the involvement of non-U.S. governments and government agencies. For example, in 2020 the People’s Republic of China announced a 15-year effort to set global standards in many areas, including the Internet of Things. The Division may have felt that these initiatives outside the United States necessitated a strong statement that SSOs must not by their collective action favor implementers or patentees by mandating certain FRAND license terms.

Beyond SSOs and SEPs, some may question the implication of the 2020 BRL Update for the BRL process in general. If all BRL guidance is subject to major revision (indeed revocation), the considerable benefits of the program in providing guidance to mold market behavior may be undermined. By acknowledging that the Update was “extraordinary,” the Division may be signaling that such “updates” will be rare.

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ENDNOTES

- 1 Response to IEEE's Request for Business Review Letter, Renata B. Hesse, Acting Ass't Att'y Gen., Antitrust Div., U.S. Dep't of Justice (Feb. 2, 2015), <https://www.justice.gov/file/1315431/download> [hereinafter 2015 BRL]. The Division expressly noted in the 2015 BRL that "[i]t is not the Department's role to assess whether IEEE's policy choices are right for IEEE as [an SSO]. SSOs develop and adjust patent policies to best meet their particular needs. It is unlikely that there is a one-size-fits-all approach for all SSOs, and, indeed, variation among SSOs' patent policies could be beneficial to the overall standards-setting process. Other SSOs, therefore, may decide to implement patent policies that differ from the [update to IEEE policy]." *Id.* at 1-2.
- 2 Updated Response to IEEE's Request for Business Review Letter, Makan Delrahim, Ass't Att'y Gen., Antitrust Div., U.S. Dep't of Justice (Sep. 10, 2020), <https://www.justice.gov/atr/page/file/1315291/download> [hereinafter 2020 BRL Update].
- 3 *Id.* at 1-3.
- 4 *Id.* at 1-2.
- 5 *Id.* at 2-3. The 2015 BRL on its face declined to express support for the IEEE policy. See *supra* note 1.
- 6 *Id.* at 4, 8-9.
- 7 *Id.* at 4.
- 8 Bryan Koeing, *DOJ Antitrust Head Touts Pushback On 'Radical' IP Theory*, LAW360, Sep. 10, 2020, https://www.law360.com/ip/articles/1307302?utm_source=rss&utm_medium=rss&utm_campaign=section.
- 9 2020 BRL Update, *supra* note 2, at 6.
- 10 *Id.* at 5.
- 11 *Id.*; see also U.S. Dep't of Justice, USPTO, and NIST, *Joint Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments* (Dec. 19, 2019), <https://www.justice.gov/atr/page/file/1228016/download>. Of course, no BRL guidance would override the well-developed standards for grant of an injunction, including those discussed in the Supreme Court's *ebay* decision. See *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).
- 12 2020 BRL Update, *supra* note 2, at 6.
- 13 *Id.*
- 14 *Id.* at 7.
- 15 *Id.* at 8. See also 2015 BRL, *supra* note 1, at 14 ("Even if this provision entails a departure from historical licensing practices for some licensors (who, for example, may prefer to license manufacturers of the end product, not manufacturers of the input), the [update to IEEE policy] does not mandate specific licensing terms at different levels of production. For example, the royalty rate need not necessarily be the same at all levels of production. In each case, the RAND royalty should reflect the value of the patented technology. If a patented invention's value is not reflected in the current price of upstream implementations, due to historical licensing practices, some adjustments may be necessary, and the [update to IEEE policy] does not prevent such adjustments.").
- 16 *Id.* at 11.
- 17 See Koeing, *supra*, note 8.

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