Patent pools and patent portfolio licensing have long been a critical part of the way innovators and implementers organize their affairs, trade rights and assets, and stay out of court. Over much of the last generation, however, an imbalance has taken hold that has forced innovators and implementers to increasingly turn to the judicial system to settle disputes rather than coming to arm's length negotiated resolutions. In recent years it has become in vogue once again to raise various antitrust theories against innovators who seek to license their portfolios or join patent pools, during a time which innovators charge there has been a refusal to deal by implementers who force them to sue because they know they will ultimately only have to pay what would have been a reasonable negotiated licensing rate even if they are later found to have infringed after years of litigation.

The seminal case on point seemed to be FTC v. Qualcomm, where the Ninth Circuit overruled the district court and determined that Qualcomm's licensing efforts did not violate antitrust laws. The FTC did not appeal the decision to the Supreme Court. The failure of the FTC to appeal coupled with Avanci receiving a favorable business review letter (BRL) from the Department of Justice seemed to put the issue to rest: any alleged abuse does not rise to the level of an antitrust violation. But now some in the Biden Administration are rumored to believe it is folly to think that a patent and/or patent licensing program can constitute an antitrust violation, which raises the specter that the new Administration will shift the balance between implementers and patent owners once again, at least from an executive perspective.

Will the shifting currents create a tension between the Biden administration trying to broaden Antitrust enforcement of patent licensing efforts, a Congress that is aggressively considering new laws to expand antitrust to capture the business models of Facebook, Google, Amazon, and others, and the conservative judges that took over the appellate courts during the Trump Administration? That is the wide-ranging discussion this panel will have regarding the future of patent pools, patent licensing and antitrust enforcement during the Biden administration.

SPEAKERS

**Meredith Addy**, co-founder of AddyHart P.C., is a deeply experienced intellectual property litigator who specializes in cases before the U.S. Court of Appeals for the Federal Circuit, in the federal district courts, and at the USPTO's Patent Trial and Appeal Board. Addy has led 40 federal district court cases
and more than 60 appeals to the Federal Circuit. Experienced in protecting and monetizing corporate intellectual asset portfolios, Addy in 2015 earned her M.B.A. from the University of Chicago’s Booth School. Addy has spent her career counseling high-profile companies in the software, technology, biotechnology, and pharmaceutical industries. She focuses on developing and executing strategies to achieve the most efficient approach to realizing her clients’ IP goals. Her clients describe her as “an exceptionally skilled lawyer” and a “key figure, who knows the courts inside and out,” adding that she is “extremely pro-business. She really understands business and how it’s run.” (Chambers USA) Addy has held high management positions at AmLaw100 firms and IP boutiques, including serving as office managing partner of the Chicago office of an AmLaw100 firm; serving as chair of the national patent litigation practice at another AmLaw100 firm; and serving as chair of the national appellate practice at one of the nation’s largest IP law firms. She has also served on firms’ Executive Committees and Boards of Directors.

Danielle (DJ) Healey has been litigating complex cases in federal courts, state courts, and agencies, and handling licensing, antitrust, mediation and arbitration matters for over 34 years. She has focused on patent litigation and related antitrust and tort claims since 1994. Ms. Healey has tried cases in U.S. district courts, state courts, U.S. International Trade Commission, International Chamber of Commerce (arbitration), American Arbitration Association, NASD Arbitration Forum, and private arbitration. She has argued appeals in the Federal Circuit, Fifth Circuit and Fourth Circuit courts of appeals, as well as the Texas Supreme Court and Texas Intermediate Courts of Appeals. Ms. Healey has been actively involved in planning and executing multi-jurisdictional strategies involving courts in the U.S. and Europe, and administrative agencies (including reviews in the U.S. Patent and Trademark Office (USPTO), invalidity and declaratory judgment actions in Europe, and state regulatory matters). Ms. Healey has worked on patent and antitrust issues with the U.S. Federal Trade Commission (FTC) and has represented clients intellectual property related competition matters before the FTC, the European Union, and Texas state authorities. Ms. Healey has been involved in negotiating patent licenses in the semiconductor and software industries, she has represented clients in dealing with obligations and licensing in standard-setting organizations, she has been general counsel to a standard-setting group, and she has litigated the substantive and anticompetitive effects of licenses in court, in arbitration, and in administrative agencies.

Micky Minhas is Senior Vice President at the Marconi Group, an intellectual property licensing and investment firm based in Dallas, Texas. As part of the Marconi management team, he plays a vital role supporting Marconi’s vision of transforming the fundamentals of intellectual property licensing through providing better ways to share patented technology. Before joining Marconi in March 2020, Micky was Chief Patent Counsel for Microsoft, managing the Microsoft patent group since 2012. Micky managed a team of over one hundred patent professionals who were primarily responsible for outbound and inbound intellectual property licensing, patent strategy, patent acquisitions and divestitures. He also managed patent preparation and prosecution of patents and was responsible for Microsoft’s conflicts, indemnification and pre-litigation practice. During his time, Microsoft had a significant patent licensing business resulting in significant revenue for the company, as well as placement of Microsoft products on Android based mobile devices. Prior to Microsoft, Micky served for 13 years as Vice President of Intellectual Property Strategy at Qualcomm in San Diego, California. There, Micky was responsible for establishing the company’s 4G patent portfolio as well as intellectual property aspects of Qualcomm’s mergers and acquisitions practice. As part of his time with Qualcomm, Micky was based in Munich, Germany where he managed the company’s patent opposition practice.
Jon Putnam holds BA, MA and PhD degrees in economics from Yale University, where he specialized in international, macro and R&D economics. He received fellowships at Yale and Columbia Law Schools. Dr. Putnam's PhD thesis, The Value of International Patent Rights, was the first to measure the global value of patent rights. In 2012, Dr. Putnam founded Competition Dynamics, a platform for research and testimony at the intersection of intellectual property, antitrust and international trade. Dr. Putnam has been retained in more than 150 consulting engagements and has testified more than 50 times in patent, antitrust, copyright, trade secret, contract and tax actions, arbitrations and regulatory proceedings. Cases with more than $1 billion in controversy include: Medtronic v. IRS; Apple v. Qualcomm; Idenix v. Gilead Sciences; Ericsson v. Huawei; Ericsson v. Apple; InterDigital v. Samsung. Before founding Competition Dynamics, Dr. Putnam held a chair in the Law and Economics of Intellectual Property at the Centre for Innovation Law and Policy, University of Toronto. Dr. Putnam has also held academic appointments at the Boston University Graduate School of Management, Columbia University Schools of Law and Business, Vassar College, and Yale College.
The New Madison Approach and the Harmonization of Antitrust and Patent Law: A Retrospective Summary

By Alden Abbott
February 15, 2021

“The NMA reflects the view that terms of licensing negotiations between patentees and implementers, particularly in the shadow of standard setting, should not be micromanaged by government officials who necessarily have less knowledge of rapidly changing market dynamics than the negotiating parties.”

In a major 2018 speech, Justice Department Assistant Attorney General for Antitrust Makan Delrahim enunciated a “New Madison Approach” (NMA) (a tribute to James Madison’s support for a strong patent system) designed to restore greater respect for efficiency-seeking patent transactions in antitrust enforcement (a 2020 law journal commentary discusses the NMA and the reactions it has elicited, both positive and negative). Consistent with the NMA, the Trump Administration Antitrust Division took a number of initiatives aimed at reducing perceived new antitrust risks associated with widely employed patent licensing practices (particularly those touching on standardization). Those new risks stemmed from Obama Administration pronouncements that seemed to denigrate patent rights, in the eyes of patent system proponents (see here, for example). Given this history, the fate (at least in the short term) of
the NMA appears at best uncertain, as the new Biden Administration reevaluates the merits of specific Trump policies. Thus, a review of the NMA and the specific U.S. policy changes it engendered is especially timely. Those changes, seen broadly, began a process that accorded greater freedom to patent holders to obtain appropriate returns to their innovations through efficient licensing practices – practices that tend to promote the dissemination of new and improved technologies throughout the economy and concomitant economic welfare enhancement.


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NMA Principles and Implementation
The NMA enunciates key principles dealing with the interrelationship of patent and antitrust law. It rejects recent commentaries by patent critics (including Obama Administration antitrust enforcers) that view patents as conferring excessive market power that should be curbed – either through reinterpreting antitrust law or by establishing patent policies of standard setting organizations (SSOs) that favor implementer firms that practice a patent when they build new technologies.

Notably, the NMA is skeptical of critics’ claims about the gravity of the “hold-up” problem, which arises when patentees demand “excessive” licensing fees for their “standard essential patents” (SEPs), access to which is needed by implementers that are “locked into” SSO standards. The critics typically support legal mechanisms, including antitrust law, that require SEP owners to license their patents on “fair, reasonable, and non-discriminatory” (FRAND) terms to third parties.

The NMA has four basic premises (developed in Delrahim’s speeches) that are aimed at ensuring that patent holders have adequate incentives to innovate and create welfare-enhancing new technologies, and that licensees have appropriate incentives to implement those technologies:

- Hold-up is fundamentally not an antitrust problem, and therefore antitrust laws should not be used as a tool to police FRAND commitments that patent-holders make to SSOs.
- SSOs should not become vehicles for concerted actions by market participants to skew conditions for patented technologies’ incorporation into a standard in favor of implementers because this can reduce incentives to innovate and encourage patent hold-out (whereby implementers demand access to SEPs at inefficiently low rates that undercompensate patent holders).
- Because a key feature of patent rights is the right to exclude, SSOs and courts should have a very high burden before they adopt rules that severely restrict that right or – even worse – amount to a de facto compulsory licensing scheme.
- Consistent with the patent holder’s fundamental right to exclude, a unilateral and unconditional refusal to license a patent should be per se legal under the antitrust laws.

Delrahim summarized the basic reasoning underlying the NMA in a September 2020 speech:

*The competitive process in this [SEP licensing] context takes place in the negotiations between implementers and patent holders. Negotiating in the shadow of dubious antitrust liability is not only unnecessary, it dramatically shifts bargaining power*
between patent holders and implementers in a way that distorts the incentives for real competition on the merits through innovation. Giving implementers the threat of treble damages in antitrust increases the perverse likelihood of “hold-out,” which is the other side of the “hold-up” coin. Of course, none of this undermines the importance of the negotiations that took place at the time that an SDO selected competing technologies for inclusion in the standard. To the extent that implementers bargained for some benefit, contract law already provides a solution to the problem of patent holders failing to live up to that bargain. The parties are on equal terms when they bargain in the shadow of contract law, because there is no threat of treble damages skewing the negotiations in favor of the implementer.

Under Delrahim’s leadership (see the September 2020 speech), the Antitrust Division took active steps to promote the NMA in court filings, in a joint policy statement, and in a 2020 supplement to a 2015 Obama Administration business review letter.

**Judicial Filings:** The Division filed three “statements of interest” in federal district court cases. Two of the filings (in Continental v. Avanci and in Lenovo v. Interdigital) argued that antitrust claims based on alleged violations of FRAND commitments do not raise antitrust issues. A third filing (in Intel v. Fortress) stressed that a complaint that merely alleges the acquisition and aggressive enforcement of a large patent portfolio does not make out an antitrust claim (harms to competition must be alleged), and critiqued the allegation of an overly broad patent market (the “electronics patent market”). The Division also filed a joint amicus curiae brief with the U.S. Patent and Trademark Office (USPTO) in HTC v. Ericsson, urging the Fifth Circuit to reject two “rigid rules” – (1) that reasonable SEP licensing rates have to be based on the value of the smallest saleable patent practicing units, and (2) that a disparate impact on disparate licensees makes would make almost any licensing arrangement discriminatory. In addition, Delrahim opined that Qualcomm’s Ninth Circuit victory in FTC v. Qualcomm (2020) (a case in which the Division had made filings opposing the FTC’s position) was “encouraging” in its statements that rejected a duty to deal by rivals, and that found the mere violation of a contractual FRAND commitment does not “impair the opportunities of rivals” in an antitrust sense.

**Joint Policy Statement:** In December 2019, the Antitrust Division, the USPTO, and the National Institute of Standards and Technology (NIST) jointly issued a policy statement clarifying a patent owner’s promise to license a patent on FRAND terms is not a bar to obtaining any particular remedy, including injunctive relief. The agencies made clear that no “special set of legal rules” apply to SEPs, and the courts, the U.S. International Trade Commission, and other decision makers are able to assess appropriate remedies based on
current law and relevant facts. The 2019 statement replaced a 2013 joint statement that “had been construed incorrectly as suggesting that special remedies applied to SEPs and that seeking an injunction or exclusion order could potentially harm competition.”

**Institute of Electrical and Electronics Engineers Business Review Letter Supplement:** A 2015 business review letter issued by the Obama Antitrust Division had expressed no antitrust concerns about a new IEEE policy that restricted the ability of SEP holders to seek injunctions and imposed a number of limitations on SEP licensing practices. The new IEEE policy had been deemed by many commentators to excessively “pro-implementer.” *In a September 10, 2020 supplement*, the Trump Antitrust Division addressed concerns raised publicly by industry, lawmakers, and former federal government officials that a 2015 Division business review letter to the Institute of Electrical and Electronics Engineers (IEEE) had been “misinterpreted, and cited frequently and incorrectly, as an endorsement of the IEEE’s Patent Policy.” The 2020 supplement emphasized that the 2015 letter expressed no such endorsement. It also discussed the need to align the now outdated analysis in the 2015 letter with current U.S. law and policy, which had evolved in important ways in relation to the licensing of SEPs, and the governance of standards development organizations (an implicit reference to NMA principles). The supplemental letter encouraged IEEE to consider the supplementary letter and all applicable facts when assessing whether an update to the IEEE’s Patent Policy was warranted.

**Recent Decisions by European Courts in Line with NMA Principles**

Foreign antitrust enforcers have not specifically adopted the NMA approach. Nevertheless, as then Assistant Attorney Delrahim pointed out (see *his September 2020 speech*), two recent decisions by European high courts are generally in line with NMA principles.

In *Sisvel v. Haier* (2020), the German Federal Court of Justice indicated that implementers must act in good faith in licensing negotiations by making offers of their own – they cannot just reject successive offers claiming that no offer has been named on FRAND terms. The Federal Court also held that the mere fact that the patent holder had offered better licensing terms to a different entity did not make the offered terms discriminatory.

In *Unwired Planet International v. Huawei Technologies* (2020), the United Kingdom Supreme Court held that SEP holders may be entitled to injunctive relief and are not limited to seeking monetary damages. Indeed, the Supreme Court stressed that “[a]n injunction is likely to be a more effective remedy, since it does not merely add a small increment to the cost of products
which infringe the UK patents, but prohibits infringement altogether.” Furthermore, in line with the German Federal Court’s reasoning in *Sisvel*, the Supreme Court in *Unwired Planet* that a patent holder is not required to offer each implementer the best terms that it has offered to any previous implementer in order to comport with FRAND obligations. According to Delrahim, this reasoning recognized that “competition is taking place when patent holders and implementers negotiate. Courts are increasingly aware that they should respect those competitive dynamics and limit their own distortionary effects.”

**The NMA – and Innovation – Should Transcend Partisanship**

The NMA reflects the view that terms of licensing negotiations between patentees and implementers, particularly in the shadow of standard setting, should not be micromanaged by government officials who necessarily have less knowledge of rapidly changing market dynamics than the negotiating parties (this implicitly echoes the understanding, expressed by Nobel Laureate Friedrich Hayek, that government “experts”’ efforts to engineer ideal economic outcomes reflect “the pretense of knowledge”). Efficiency-seeking licensing freedom facilitated by the NMA is responsive to changing market conditions and plays a valuable role in technology dissemination and implementation – key factors in promoting dynamic economic growth. The NMA also seeks to preserve respect for the patentee’s right to exclude, which is key to its ability to obtain returns to its investment in intellectual property that in turn drive incentives to innovate. Accordingly, abandonment of the NMA would tend to undermine modes of transacting that support critically important innovation-driven economic welfare creation. One hopes that the Biden Administration will keep that reality in mind and retain the NMA as a key element of its antitrust policy.

**Tags:** Biden administration, FRAND, Guest Contributor, innovation, intellectual property, Licensing, Makan Delrahim, New Madison approach, patent, patent infringement, SEPs, standard essential patents  
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The Patent Pool Explained: An Effective Mechanism When the Burden is Shared

By Michael Renaud & James Wodarski & Daniel Weinger & Kara Grogan

October 30, 2020

“Pools are an elective market mechanism designed to provide benefits to both innovators and implementers…. The market benefits of pools are not fully realized and, in some cases, entirely destroyed when the burdens are not shared equally.”

Implementers of standard essential technology such as Long-Term Evolution (LTE) are constantly attempting to reduce costs for implementation. This behavior has led to certain inefficiencies in the marketplace, such as innovators not being compensated for their contributions to technological standards. The symbiotic relationship between innovators and implementers cannot continue where one side takes all the risk and the other side reaps
all the reward. One construct put in place by innovators to extract compensation from the marketplace are patent pools that license patents that are declared essential for technology standards.

**A Brief History of Pools**

Pools are agreements between two or more patent owners to license their patents to one another and/or to third parties. *Patent Pools and Antitrust – A Comparative Analysis*, World Intellectual Property Organization (WIPO), 3 (Mar. 2014). “In a patent pool, patent rights are aggregated amongst multiple patent holders. Then, the pooled patents are made available to member and non-member licensees and typically the pool allocates a portion of the licensing fees it collects to each member in proportion to each patent’s value.” *Id.* (citing Robert P. Merges, *Institutions for Intellectual Property Transactions: The Case of Patent Pools, in Expanding the Boundaries of Intellectual Property*, Innovation Policy for the Knowledge Society, 123, 129 (Rochelle Cooper Dreyfuss et al. eds., 2001)).

In many fields, in particular high technology industries such as cellular networks, video transfer (or streaming), and other software and hardware-based systems, it became necessary to create formal standards to enhance the development of the industry and ensure the interoperability of related services. Interoperability is critical to ensure that consumers are not tied to any particular manufacturer of goods based on a single decision made at a given point
in time or based on the dominance of one particular product in an ecosystem provided by one manufacturer. Consider the effect on consumers if, absent such standards, one could only purchase memory sticks from the same manufacturer who provided a laptop computer? The laptop manufacturer has full control over the interface it provides for memory sticks and could select a proprietary interface. The lack of choice between several manufacturers of memory sticks would drive prices up and harm consumers. It would also serve as a barrier to entry for companies that do not make laptops to make memory sticks. So, the industry developed the Universal Serial Bus standard, to standardize the interface for memory sticks.

Inevitably, technology will be developed, and enhancements made and patented, which address functionality that is also incorporated into a standard. Such SEPs are “patents that are unavoidable for the implementation of a standardized technology. They represent core, pioneering innovation that entire industries will build upon. These patents protect innovation that has taken extraordinary effort to achieve.” Pools then facilitate a process where each participating SEP owner can enter into cross licenses with the other participating pool contributors. The SEP pool “provides a standard license in respect of the pooled patents for licensees who are not members of the pool, and allocates to each member of the pool a portion of the licensing fees in accordance with the agreement.” *Id.* And, since SEPs are complementary, pools comprising essential patents are less likely to cause competitive concerns, especially compared to patent pools that consist of non-essential patents. *Id.* at 5.

The Purpose of Pools

Pools are an elective market mechanism designed to provide benefits to both innovators and implementers. Richard J. Gilbert, *Collective Rights Organizations: A Guide to Benefits, Costs and Antitrust Safeguards*, The Cambridge Handbook of Technical Standardization Law, Vol. 1 – Patents and Competition Law, 17 (Feb. 27, 2017) (citing *U.S. Philips Corp. v. ITC*, 424 F.3d 1179, 1190-91, 1192, 1197 (Fed. Cir. 2005)). Pools allow both innovators and implementers to enjoy cost predictability by simultaneously increasing efficiencies and decreasing transaction costs and litigation expenses.

The market benefits of pools are not fully realized and, in some cases, entirely destroyed when the burdens are not shared equally. Expecting one party to shoulder all of the costs, such as requiring litigation-grade validity and essentiality checks, leads to an abusive market position, such as, e.g., hold-out. Such tactics frustrate the market benefits that pools are intended to foster, and drive parties into the very thing patent pools were designed to prevent: litigation.

In our next article, we examine some unfounded critiques of the patent pool system, and how these misunderstandings of patent pools lead to market inequities when parties refuse to
entertain licensing discussions with a pool administrator.

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**Tags:** Guest Contributor, implementers, innovation, intellectual property, interoperability, Licensing, patent, patent pools, SEPs, standard essential patents

**Posted In:** Antitrust, Business, Guest Contributors, IPWatchdog Articles, Licensing, Patents, Technology & Innovation
DOJ Affirms Pro-Competitive Benefits of End-Device Licensing in Avanci 5G Platform Review

By Gene Quinn
August 20, 2020

“The Avanci business review letter and the 9th Circuit ruling in *FTC v. Qualcomm* together provide a beacon of certainty, clarity and a useful guidepost for anyone contemplating a patent licensing marketplace for portfolios of assets.”

Several weeks ago, the Antitrust Division of the U.S. Department of Justice announced a positive Business Review Letter (BRL) concluding an eight-month review of Avanci’s new platform for licensing 5G standard essential patents.

“In sum, the proposed 5G Platform has the potential to yield efficiencies by reducing transaction costs and streamlining licensing for connected vehicles,” wrote Assistant Attorney General Makan Delrahim, who heads the DOJ Antitrust Division.
“Together these efficiencies may allow cellular standards-essential patent owners and vehicle manufacturers to focus resources elsewhere, such as investment in further research and development in emerging 5G technologies and applications. This possibility could enhance competition in these technologies, improve safety, and benefit American consumers.”

The finding that the Avanci 5G platform could enhance competition is critically important for Avanci, and positively affects the technology licensing landscape.

**BRLs Provide Meaningful Guidance for Industry**

“We were pretty sure we were doing everything right,” Kasim Alfalahi, founder and CEO of Avanci, told IPWatchdog. “But this means a lot to us because when you are creating something as big as this for the industry—with 5G—it is great to take away all doubt because you never know how some companies may look at it.”

Alfalahi also told IPWatchdog that there were a lot of companies that had been asking for market-based end product licensing so they didn’t need to take a license from so many different companies.

But what is a BRL and what does it really mean for Avanci? And will this BRL provide any insight into how the Antitrust Division will view other similarly situated actors?

Those concerned about the legality of proposed business conduct can ask the DOJ to review the proposed conduct and issue a statement regarding its current enforcement intentions. These reviews are allowed, not mandated, by 28 C.F.R. 50.6, and culminate in a BRL declaring “the enforcement intention of the Division as of the date of the letter.” While the BRL does not have application to any party that does not join in the request, given the letter does provide the current interpretation and enforcement intention of the Antitrust Division, BRLs are extremely useful guidance, not just for the party requesting the BRL—in this case Avanci—but also for other similarly situated companies that might wish to model their business practices after those disclosed to the Antitrust Division. In that way, the BRL process allows for meaningful guidance by the DOJ to inform businesses how to best coordinate their business dealings to ensure they do not run afoul of what can sometimes be rather byzantine antitrust laws.

DOJ BRLs have long played a key role in the development of antitrust analysis for the licensing of patents, particularly patents dedicated to standard essential patents. For example, BRLs analyzing essential patent licensing programs were issued to RFID (Gen-2 standard), MPEG-LA (MPEG-2 standard), a DVD standard pool, and a 3G platform (3G cellular standard).
As useful as BRLs are for the industry, and for government to gently direct businesses to act in accordance with best practices, it has been a while since the Antitrust Division has conducted a review and provided guidance on a patent licensing program. So, the Avanci BRL is a timely development sure to be welcomed by patent owners.

**Safeguards Outlined**

Launched in 2016, Avanci offers a wireless connectivity licensing platform for IoT devices, currently offering a 2G/3G/4G program for cars and a parking meters program. The new Avanci 5G platform reviewed by the BRL, and launched a day after it was issued, aims to license 5G essential patents to the automotive industry, whose profitable use of cellular technology via connected cars is only increasing as automakers race to make their cars ever more connected hubs.

The BRL describes the safeguards built into Avanci’s 5G platform, including: (i) essentiality reviews; (ii) maintaining licensors’ right to independently license outside the platform; and (iii) a royalty distribution structure based on the number of essential patents submitted, licensors’ comparable licensing revenue, and parties’ technical contributions to the standard. In short, the 5G patent licensing platform includes many “safeguards that reduce the risk of competitive harm,” wrote Delrahim.
The letter also explains that efforts by Avanci to eliminate substitute patents from the pool prevents the type of price fixing or elimination of competition that can sometimes arise when a pool does capture substitutes. In fact, the BRL explains that the Avanci 5G platform is more rigorous than “other pools that the Department has found to adequately prevent the inclusion of substitute patents,” and is also consistent with ETSI IPR policy. Thus, the BRL explained there can be significant benefits of collecting complementary patents for both licensees and licensors. In fact, the BRL acknowledges that offering a “one stop shop” as the 5G platform does prevent risk of patent stacking to licensees.

**Criticism Addressed**

One of the criticisms of this type of market licensing program is that suppliers may be excluded from obtaining a license, as licensors may choose to license only to the vehicle manufactures. The BRL explained that this is not problematic for two critical reasons. First, the Avanci 5G platform’s field of use license includes “Have Made” rights, which would allow a vehicle manufacturer to have third-party component suppliers make components for their 5G connected vehicles. Second, the BRL correctly explains that since the patent owners are free to negotiate individually, if suppliers or component manufacturers wanted to obtain a license they could simply “bilaterally negotiate with licensors outside the Platform.” Thus, the fact that suppliers and component manufacturers are excluded does not present limitation to end product licensees that is likely to harm competition, according to the Antitrust Division.

The Letter concludes in describing the multiple pro-competitive benefits of licensing on the automotive end product level. It recognizes its “numerous efficiencies such as simplifying scope, pricing, and royalty collection” given the “complex” “fragmented and opaque” nature of the automotive supply chain. Another recognized benefit of end-device licensing through Avanci’s 5G platform is that it may “help ensure licensors are appropriately compensated for their innovation”. In line with letting licensing markets competitively run their course, “[t]he Department believes parties should be given flexibility to license in a manner, consistent with [their contractual] commitments, that best rewards and encourages innovation.”

One of the more useful elements of the BRL is its explanation that the choice to license solely at one level of the value chain (end-device level in Avanci’s case) is a legitimate and common field-of-use licensing feature that has been blessed by the Antitrust Division for decades. Of course, it has been blessed by the Antitrust Division because it has the virtue of also being black letter patent law. A patent is a bundle of rights and the patent owner is allowed to carve those rights up and license entities accordingly. If we are going to operate with the notion that a patent is an exclusive right, as the Patent Act states it is and the grant of the patent itself
promises, the right of the patent owner to license in such a manner must remain sacrosanct where there is no competitive harm.

**Contours Clarified**

While some are undoubtedly disappointed, or perhaps even surprised, perhaps over the last several weeks we are witnessing multiple developments clarifying the contours of U.S. antitrust law and policy as it relates to patents in America. It is worth noting that not only is this Avanci BRL letter an important policy statement by the DOJ, but these DOJ conclusions received a boost from the 9th Circuit recently in its *FTC v. Qualcomm* opinion, in which the Court held that Qualcomm’s “OEM-level licensing policy...was not an anticompetitive violation of the Sherman Act” and that the “procompetitive justifications for [the] OEM-level licensing policy...appeared to be reasonable and consistent with current industry practice.”

With the district court issuing a 200+ page decision, many thought it would be unthinkable that any Court of Appeals panel would overrule it. But then the DOJ (together with the Departments of Defense and Energy) stepped into the fray, creating a split in government policy between the two primary antitrust regulating authorities. That must have caught the attention of the 9th Circuit. Clearly, the novel theories that went contrary to well-established Supreme Court precedent were a bridge too far. So, we have much reason to thank the first-ever Assistant Attorney General for Antitrust who is also a patent attorney—Makan Delrahim. He understands the purpose of a patent, why a patent is fundamentally pro-competitive and how patents foster innovation. He has placed his mark not only on the DOJ, but now, through the assistance of his Division, he has certainly helped shine a spotlight on these issues for the Judiciary, and led the 9th Circuit to clarify the law for all of us.

**A Beacon of Certainty**

The Avanci BRL and the 9th Circuit ruling in *FTC v. Qualcomm* together provide a beacon of certainty, clarity and a useful guidepost for anyone contemplating a patent licensing marketplace for portfolios of assets. Indeed, entire portfolios of standard essential patents have become more valuable, and one hold-out strategy will become more challenging. I’m sure, however, implementers will move on to the next challenge. They always do.

*Image Source: Deposit Photos*

*Author: sdecoret*

*Image ID: 188095512*
Antitrust and Patents: A Conversation with Makan Delrahim

By Gene Quinn
March 26, 2020

“The question of what FRAND requires will vary based on the industry, the practice of the parties and the relevant contract law. It should not be based on the requirement that somehow FRAND requires the smallest salable patentable unit.” – Makan Delrahim

Last week, as a part of the Virtual Patent Masters™ Program hosted by IPWatchdog, I had the opportunity to interview Makan Delrahim, who is Assistant Attorney General in charge of the Antitrust Division at the U.S. Department of Justice (DOJ).

During his tenure at the Antitrust Division, AAG Delrahim has moved the policy of the federal government in a direction that is viewed as being more friendly to patent owners and innovators. For example, in December 2018, Delrahim indicated that the Antitrust Division was withdrawing its assent to the to the 2013 joint
DOJ-U.S. Patent and Trademark Office *Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments* (the 2013 Joint Policy Statement) during *remarks* delivered at the 19th Annual Berkeley-Stanford Advanced Patent Law Institute. It was the Delrahim’s view that patent remedies shouldn’t be unilaterally unavailable for one category of patent simply because the patent owner may be subject to an obligation to engage in fair, reasonable and non-discriminatory negotiations with implementers.

**A Clarification**

Many misinterpreted what was in the 2013 policy statement as being “some kind of expression by the government of skepticism toward injunctive relief for standard essential patents as opposed to injunctive relief for other types of patents, and I did not think that was grounded in either the law, the constitution, or frankly economics,” Delrahim explained to me during our conversation on March 16. “I was really concerned with where the trajectory of that was, not only in the United States but abroad.”

The purpose of the 2019 statement was to “remove our thumbs from the scale,” Delrahim explained. “Courts are free to take a look at the various factors and see whether injunction is appropriate, but we certainly did not want it being interpreted as skepticism as to injunctive relief for SEPs.”

“The [2013] Statement made a couple of points that were unfortunate, I think,” Delrahim continued. “An SEP holder of a FRAND encumbered patent may ‘harm competition simply by seeking injunctive relief.’ And somehow could undermine public interest, and that is just not what the law is or should be.”

It would take until December 2019— a full year later— for the USPTO to finally get on board with Delrahim. In the 2019 Joint Policy Statement on injunctions for standard essential patents, the DOJ and USPTO were joined by the National Institute of Standards and Technology (NIST).

“We were grateful for NIST to join in 2019,” Delrahim said. “I understand that NIST was involved in the discussions in 2013, but for whatever reason, and I was not privy to that, did not join the 2013 Statement. We were not only grateful to work on all levels with NIST, but particularly with their Director Walt Copan and their Chief Counsel, who were folks that not only understood the standard setting process but understood the importance of the patent system for the innovative process.”
Defining ‘Good Faith’

As our conversation pivoted away from the policy shift on injunctions, I asked Delrahim about whether he had in his mind any idea about factors or considerations that would lead to a conclusion that parties are not negotiating in good faith, which is a growing question of importance for standard essential patent holders who are obligated to offer fair, reasonable and non-discriminatory licensing rates (FRAND), but who increasingly find themselves attempting to negotiate with implementors who acknowledge implementation of the standard but refuse to pay anything, or even communicate.

“I will leave it to various courts and practitioners to allege that. I know there are a host of factors that go into that, whether from contract laws or fraud laws,” Delrahim said. “There was a big emphasis on patent hold up, and hold-up and hold-out are both considerations that we should be worried about. As far as the good faith factors, I want practitioners to be able to raise them because, frankly, I don’t think we can identify specific factors that would be exhaustive.”

Developing the Law

Our conversation pivoted again, this time to specific cases the DOJ Antitrust Division has filed to join. Before specifically addressing the cases, Delrahim explained that the DOJ filing in
these cases is a part of a broader effort to join a number of private cases—approximately 30
he said—in an effort to provide the views of the federal government and to help ensure that
the law is developed appropriately in key areas.

*Continental v. Avanci*, in the Northern District of Texas, was interesting to the DOJ because
there were claims under Section 2 of the Sherman Act, Delrahim explained. “The concern was
raised that somehow there was deception regarding the rate that they would offer; there was
deception in what the intention was, whether or not the rate under FRAND was going to be one
thing or another.”

Delrahim explained that the Division spoke with both parties in the case and thought that the
issues presented “the exact issue we are concerned about: where Section 2 is appropriate. And
where it is not you should leave that to contract law.”

Delrahim said that the Division did not side with either party in the case, and spoke on the
issue of the appropriateness of Section 2 of the Sherman Act as being a cause of action for a
claim based on deception in a royalty rate the patent owner would later seek.

“Where the alleged deception involves the rate that the patent owner intends to charge, and
the only price term is FRAND that was committed in the standard setting process, there is no
real deception there, because members of an SSO fully expect, or should fully expect, that a
patent will try to maximize the returns as it should. So, you want to seek the maximum term
you can bilaterally negotiate. And to say that is not fair and you never intended it, therefore it
is a deceptive factor, we thought was going too far…”

**What is FRAND?**

On *HTC v. Ericsson*, the DOJ Antitrust Division filed a brief along with the United States Patent
and Trademark Office, taking interest in the case again because the dispute was over the rates
of the patents and whether they comported with FRAND obligations, but specifically what the
FRAND rate applied to; namely, either the smallest salable patent practicing unit or the end
unit.

“There, the dispute was whether or not the FRAND obligations that Ericsson had committed to
required it to license based on the smallest salable patent practicing unit as opposed to the
end unit,” Delrahim explained. “And we argued in the Fifth Circuit that to hold that the FRAND
requires licensing at the smallest salable practicing unit, at that level, then that holding would
unduly restrict commercial negotiations between the parties… and overall limit the
competitive process.”
“The question of what FRAND requires will vary based on the industry, the practice of the parties and the relevant contract law. It should not be based on the requirement that somehow FRAND requires the smallest salable patentable unit,” Delrahim said.

**Stay Tuned**

On the question of whether the Department will rescind the 2015 IEEE letter, Delrahim explained that there is no update for now and directed everyone to the DOJ’s business review letters. He did say that others seem to be looking at the 2015 IEEE letter as a broad pronouncement of policy. “I’m taking a close look at that,” he said. He added that “people should not read anything more into that letter than any of the policy pronouncements we have made.” In my follow up question, I asked whether it was fair to characterize what I was hearing as “stay tuned”? To which he replied: “Yes, that’s fair.”

Finally, on the question of *FTC v. Qualcomm*, Delrahim was recused from the matter so it was unfair and inappropriate to ask him specifically about the Department’s positions, arguments or policies. I did, however, ask him whether he wanted to comment on the case as a lay observer, not on behalf of the Division. Delrahim pointed to many of the issues I and others have, namely the peculiarly political nature of what appears to be the persecution (my word not his) of Qualcomm by a Federal Trade Commission (FTC) that filed the case three days before the inauguration of President Trump by a 2 to 1 vote and over the strenuous objections of the incoming Chair of the FTC.

“Should a case, a law enforcement function, continue on?” Delrahim asked rhetorically. “In that sense it raises broader policy implications about the executive branch, and the proper separation of powers and accountability that our Constitution calls for.”

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