

ANTITRUST ISSUES ARISING FROM STANDARD-SETTING

EU-China Trade Project

Private Actions for Breaches of Competition Law

May 24, 2013

Beijing, People's Republic of China

Roy E. Hoffinger

Vice-President & Legal Counsel

Qualcomm, Incorporated

- “Standard” defined: a set of engineering and technical requirements for the production or performance of certain products or services.
- Potential justifications include: health and safety; interoperability; scale economies.
- Compliance may be mandated by government, or voluntary (i.e., determined by market forces).

Possible Antitrust Issues

- Process
- Price Fixing/Market Allocation
- Patent Disclosure
- Patent Licensing

Standard-Setting Process

- Members meet to discuss work items, each mapped to several technical specifications.
- Each work item proceeds in incremental steps. Several technical contributions submitted.
- Contributions discussed and selected per a consensus building process.

Standard-Setting Process

- Standard setting is generally recognized as pro-competitive because of network effects and other efficiencies.
- However, antitrust generally prohibits express or tacit agreements between competitors, including agreements on matters in addition to pricing, and group boycotts.
- An industry standard may resemble a group boycott or other unlawful agreement.

Standard-Setting Process

- Antitrust risks in standard-setting can be minimized by adopting and complying with procedural safeguards. SSO processes should be open, transparent and not subject to manipulation. European Commission, Horizontal Collaboration Guidelines.
 - Open: no unreasonable restrictions on participation by all competitors in the market(s) affected by the standard.
 - Transparent: SSO procedures should allow stakeholders to effectively inform themselves of upcoming, on-going and finalized standardization work at each stage of standard development.
 - Voting: The standard-setting organizations should have objective and non-discriminatory procedures for allocating voting rights as well as, if relevant, objective criteria for selecting the technology to be included in the standard.

Standard-Setting Process

- **Issue:** discussion of proposed standards or portions thereof among some but not all SSO members or participants; agreements to support a particular proposal for adoption as or in standard.
- Does this violate principles of openness and transparency, and prohibition against concerted action?
 - No, if SSO decisions are made in meetings open to all.

Price-Fixing/Market Allocation

- The usual rules apply to the fixing of prices and allocation of customers/territories, etc. for products and services “downstream.”
- Rules may apply to certain conduct addressed to upstream inputs (e.g., agreement between standards implementers with monopsony power on license fees and terms they will accept).
- Contact between competitors as part of standard-setting process provides opportunity for unlawful agreements; participants should recognize sensitive subjects and take care to avoid discussion thereof.

IPR/Antitrust Issues (Unilateral Conduct)

- Patent Disclosure: Notice to SSO that practicing a standard may infringe IPR.
- Licensing: Ensures access to standard by implementers.

Need for Antitrust Intervention?

- Other remedies available; may be better suited than antitrust.
 - Violation of SSO rules: breach of contract
 - Tort law (e.g., misrepresentation)
 - IP Law (patent misuse, estoppel)

Patent Disclosure

- SSO members may be required (or permitted) to disclose patents that may be technically essential to a standard.
- Purpose: Disclosure provides notice to standards implementers that they may need a license to the disclosed patents to practice the standard; also allows SSO members to consider revising standard to avoid IPR or seek FRAND commitment.

Patent Disclosure

- Disclosure of patents that “may” be essential.
 - Commentary, etc., often state or assume, erroneously, that any patent disclosed to an SSO is actually essential.
- No duty to search: Few, if any, SSOs require SSO participants to do patent searches to identify patents for disclosure. Duty is to act in “good faith.”
- Patentees should seek to avoid under-declarations and over-declarations.

Patent Disclosure

Antitrust Liability:

- Intent
 - U.S. cases limit antitrust liability to knowing and intentional failure to disclose patent by standard-setting participant.
 - European Commission investigation of Rambus.
- Causation: No antitrust liability in the U.S. unless plaintiff shows that had the patent been disclosed, the SSO would have rejected or revised the standard to exclude the patent.

Licensing (FRAND)

- SSOs typically request participants to make written commitments to negotiate in good faith with standards implementers licenses to **technically essential** patents on terms that are fair, reasonable and nondiscriminatory (FRAND).
 - Obligation applies only to patents that are actually essential; does not apply to patents that are disclosed to SSOs as potentially essential but not, in fact, actually essential.
 - Duty to license on FRAND terms is contractual; interpretation and application of FRAND commitment depends on intent of parties (i.e., patent owner and SSO).
 - European Commission has stated that breach of FRAND may also violate Competition Law.
 - May conflict with case law of European Court of Justice.

Licensing (FRAND) Issues

- License Fees
 - SEP Users: “Fair and reasonable” aimed at reducing potential for “hold-up” and “royalty stacking” and lowering costs of standards implementers.
 - SEP Owners: “Fair and reasonable” means ensuring access by implementers to the standard while providing compensation to SEP owners for costs and risks of R&D.

Licensing (FRAND) Issues

- Demand for cross-licenses to non-SEPs.
 - SEP Users: demanding cross-license to non-SEPs is unfair, unreasonable and abusive.
 - SEP Owners: FRAND places no limitations on form of compensation; blanket prohibition on demand for cross-license to non-SEPs may leave SEP owners vulnerable to assertion by competitors of non-SEPs that confer market power.

Licensing (FRAND) Issues

- “Portfolio” Licensing
 - Business Practice. In many industries patent owners and patent users desire to license on a portfolio basis, including non-SEPs.
 - *Princo* (U.S. Fed. Cir.). No violation for SEP owner to refuse to license fewer than all patents that may be necessary to practice a standard.

Licensing (FRAND) Issues

“Nondiscriminatory”

- Implementers concerned with being placed at disadvantage relative to their competitors.
- Both implementers and patentees need flexibility to accommodate particular needs, facts and circumstances.
- Non-discrimination requirements in other contexts are not interpreted to require “one-size” fits all; instead, interpreted to require non-discriminatory treatment of “similarly situated” counterparties.
- FRAND also intended to provide flexibility to parties in establishing license terms and conditions.

THANK YOU