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**DOJ Merger Statement Renews
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Implications of Industry
Standards**

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Common standards make technologies spread and flourish. From the standardizing of railroad gauges in the 19th century to the impending adoption of the HTML5 standard for internet audio and video display, standards have enabled new technologies to thrive. And standards can channel innovation into more productive and socially beneficial directions, reducing costs while multiplying potential benefits. Outside of the natural monopoly setting or government mandate, standards cannot arise without some measure of cooperation and collaboration among competitors. This collaboration can take place in settings ranging from informal consortia to formal standard setting organizations (“SSOs”).

Because standards necessarily rely on several interrelated—and patented—technological innovations, the adoption of a standard creates the potential for “patent hold-up.” A patent that covers one among many solutions to a particular technological problem—and thus confers little or no market power on its owner—becomes much more competitively significant if a company cannot conform to an industry-wide standard without infringing the patent.

In patent hold-ups, the owner of a patent that is essential to a standard (a “standard-essential patent” or “SEP”) exploits its right to exclude infringers by conditioning patent licenses on the payment of unreasonable royalties. To minimize the risk of patent hold-ups, SSOs routinely require participants in their standard-setting processes to commit ahead of time to license all SEPs on fair, reasonable, and non-discriminatory (“FRAND”) terms. In theory, requiring a FRAND commitment allows an SSO to avoid patents whose owners are not willing to license on FRAND terms, or at least to avoid unwittingly designing a standard that infringes those patents.

In the United States, the antitrust analysis of SSOs and FRAND commitments is heavily influenced by the principle that, for practical purposes, a refusal to license intellectual property, standing alone, is virtually immune from antitrust scrutiny. Although the First and Ninth Circuits have held in the past that refusals are only presumptively justified, and thus remain subject to challenge, it is unclear whether those holdings survive the Supreme Court’s *Trinko* decision, which strictly limited the imposition under the antitrust laws of a duty to deal with competitors.² *Trinko* suggests that a broad immunity for refusals to license intellectual property, like that recognized by the Federal Circuit in its *Independent Service Organizations* decision, is

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² Compare *Data General Corp. v. Grumman Systems Support Corp.*, 36 F.3d 1147, 1187 (1st Cir. 1994), and *Image Tech. Servs., Inc. v. Eastman Kodak Co.*, 125 F. 3d 1195, 1218 (9th Cir. 1997), with *Verizon Communications, Inc. v. Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398, 411 (2012) (declining to expand the “few existing exceptions from the proposition that there is no duty to aid competitors”).

more likely to govern future antitrust challenges.³ This means that antitrust enforcers and plaintiffs in the United States likely will focus on the acquisition of the patents in the first place, or on the acquisition of market or monopoly power in the course of the standard-setting process.

Beginning in the mid-1990s, the Federal Trade Commission (“FTC”) brought a series of cases challenging patent owners who, the FTC alleged, had undermined SSOs’ FRAND-commitment requirements. The FTC’s actions against Dell Computer, Unocal, and, most recently, Rambus, addressed (with varying levels of success) situations in which, in the FTC’s view, a patent owner had led a standard-setter into adopting a standard that infringed its patents, and then attempted to exploit its new market power by enforcing its patents against users of the standard.⁴

Notably, however, the U.S. Department of Justice’s Antitrust Division (“DOJ”) brought no similar suits, and was pointedly silent when the FTC’s *Rambus* action ran aground in the DC Circuit.⁵ Although it made no public pronouncements on the issue, DOJ appeared content to allow standard-setters develop and enforce clear FRAND-commitment rules rather than utilize antitrust law to make up for any shortcomings in a SSO’s FRAND-commitment rules.

More recently, however, two developments have led to greater focus on the acquisition of the underlying patent rights as a basis for antitrust scrutiny. First is the rise of non-practicing entities, pejoratively known as “patent trolls,” as buyers and enforcers of valuable intellectual property. The patent troll business model poses unique and difficult challenges for adopters of new technology. On one hand, trolls serve a useful economic function. By providing a secondary market for intellectual property rights, non-practicing entities increase the expected return on innovation. On the other hand, trolls introduce considerable uncertainty in the process of bringing new products to market, and can derail new technologies from the outset by refusal to deal.

Further, trolls that come into possession of SEPs are more likely to disrupt competition than practitioners. Because non-practicing entities do not make or sell technology, they have no need (and thus no incentive) to cross-license with competitors and have no financial stake in the ultimate success or failure of any given standard. Moreover, the Federal Circuit’s *Intergraph* decision suggests that there is, if anything, even less potential for antitrust recourse against refusals to license by trolls.⁶ Since trolls by definition are not competitors of their would-be licensees, *Intergraph* suggests that their refusals to license are not subject to the essential facilities doctrine, one of few conceivable bases for Section 2 liability.

The second development is the recent large-scale patent portfolio acquisitions by technology firms with significant positions in important markets. To the surprise of many, the DOJ actively investigated several of these acquisitions. Although the DOJ allowed the acquisitions to go through, the statement it issued in connection with its decision to close its

³ *In re Independent Service Orgs. Antitrust Litig.*, 203 F.3d 1322 (Fed. Cir. 2000).

⁴ *In re Dell Computer Corp.*, 121 F.T.C. 616 (1996); *In re Union Oil Co. of Cal.*, No. 9305 (F.T.C. Aug. 2, 2005); *Rambus Inc. v. F.T.C.*, 522 F.3d 456 (D.C. Cir. 2008).

⁵ See 522 F.3d 456.

⁶ *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346 (1999).

investigations into acquisitions by Apple, Microsoft, and Google suggested a high level of concern about the terms on which the buyers would license the acquired patents.⁷

According to the statement, the critical issue in the DOJ's investigation was "whether the acquiring firms would have the incentive and ability" to "hold up rivals, thus preventing or inhibiting innovation and competition." DOJ commented favorably on the commitments that Apple and Microsoft made to license all of the patents they acquired on FRAND terms. While the DOJ concluded that Google's acquisition was not likely to harm competition in light of Motorola's "long and aggressive history of seeking to capitalize on its intellectual property," the DOJ characterized Google's FRAND commitment as "less clear," and suggested that "how Google may exercise its patents in the future remains a significant concern." It is difficult to think of another instance in which the DOJ closed a merger review yet maintained that the acquirer's unknown, future post-merger conduct would present "a significant concern."

The DOJ's statement has caused some consternation, as it signals at the very least that the agency may be willing to use the merger review process to discourage—and possibly even extract concessions related to—a company's lawful exercise of its intellectual property rights, even where the DOJ acknowledges that the acquisition itself would not be anticompetitive. It is not clear that the DOJ will intervene more aggressively to regulate intellectual property licensing in the future. It appears at least possible, however, that the statement indicates a desire on the part of the DOJ, in conjunction with the FTC, to move antitrust regulation over intellectual property rights closer to the compulsory licensing model that the European Commission has pursued in response to alleged abuses of dominance in violation of Article 102.

The FTC's efforts to move in this direction have been only partly successful. While it was able to extract a fairly trivial consent decree from a patent owner for a royalty increase that FTC contended violated a longstanding FRAND commitment (*N-Data*), the FTC failed spectacularly in *Rambus*, where the D.C. Circuit rejected its prosecution of a patent owner whose supposed deceptive practices in setting SDRAM standards allegedly enabled it to seek exorbitant royalties.⁸ Now, however, the DOJ may be poised to try to pressure companies to license their technology regardless any antitrust duty to do so.

DOJ's concerns about patent hold-up seem overstated. The Supreme Court's decision in *eBay* means that injunctions against patent infringers are no longer a given.⁹ The need to demonstrate irreparable harm in order to obtain an injunction against an infringer means that trolls are not likely to present a credible threat to competition among their infringers. By limiting the remedy for so-called "trolls" to a reasonable royalty, *eBay* effectively imposes a FRAND licensing scheme for these cases, as any patent litigation that reaches a decision on the merits will result in a court-determined reasonable royalty. If the patent owner then initiates subsequent litigation, that royalty will hold for all potential infringers.

⁷ See <http://www.justice.gov/opa/pr/2012/February/12-at-210.html>.

⁸ Compare *In re Negotiated Data Solutions, LLC*, No. 051 0094 (F.T.C. Sept. 23, 2008), with *Rambus Inc. v. F.T.C.*, 522 F.3d 456 (D.C. Cir. 2008).

⁹ *Ebay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

Practicing entities, on the other hand, are much more likely to obtain injunctions so long as they can demonstrate irreparable harm from infringement by would-be competitors. As to their refusals to license competitors, antitrust law provides a theoretical remedy in the essential facilities doctrine, which—in the rare instances when it has been used—requires reasonable access to facilities essential to competition. Although the essential facilities doctrine is narrow in scope, it might cover the problem of patent hold-up by a practicing entity that uses its patent portfolio to exclude competitors from participation in a standard that truly defines a product market, since SEPs are by definition “essential” to practicing any given standard.

But *Trinko* suggests that attempts to use the essential facilities doctrine against an alleged refusal to license a patent will be difficult. The DOJ thus may have limited recourse against future refusals to license by the acquirers of patent portfolios. But if it is unable to articulate a basis for an antitrust challenge to the acquisition of a patent, it seems fruitless to continue to scrutinize the acquirer’s subsequent exercise of its patent rights.

The next few years may reveal whether the DOJ’s statement signals a true shift in IP enforcement policy or, instead, is merely an isolated and gratuitous expression of policy preference. For now, though, the DOJ statement will likely give companies pause when they consider acquiring large patent portfolios. While the government cannot require compulsory licensing on FRAND terms, companies now know that they will immediately be on the agency’s radar if they acquire intellectual property rights to SEPs.