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BLOG

With a Focus on Promoting Innovation, DOJ Takes "Extraordinary Step" to Update and Clarify Its 2015 IEEE Business Review Letter

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On September 10, 2020, the Department of Justice (DOJ) took the "extraordinary step" of updating its 2015 Business Review Letter to the Institute of Electrical and Electronics Engineers, Incorporated (2015 BRL), explaining that the 2015 BRL "has been cited, frequently and incorrectly, as an endorsement of the IEEE Policy." The DOJ noted that instead of resulting in expected procompetitive benefits following the 2015 BRL, the IEEE policy "seems instead to have dampened enthusiasm for the IEEE process."

While the DOJ did not originally view—in 2015—the IEEE policy's provisions as being "out of step with the direction of current U.S. law interpreting FRAND commitments," the update released by the DOJ last week (the 2020 Update) makes clear that the 2015 BRL was not an endorsement of the IEEE policy, and rather that in 2015 the DOJ was merely declining to challenge its now seemingly pro-implementer terms.

In particular, the 2020 Update corrects and clarifies three main issues from the 2015 BRL—the DOJ explains:

> (1) injunctive relief is available under U.S. law for patents encumbered by a contractual commitment to license on fair, reasonable, and non-discriminatory terms (FRAND);
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> (2) the smallest salable patent practicing unit (SSPPU) is not the only appropriate base for determining a reasonable royalty, and using the end product as the royalty base is also appropriate; and
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> (3) the focus on anticompetitive risks from "hold up" by patent owners ignores incentives for equally harmful "hold out" by implementers.

Injunctive Relief Is Available for FRAND-Encumbered Patents

In the 2020 Update, the DOJ first observed that curbing the availability of injunctive relief under the IEEE policy could present a "serious harm to innovation." Noting that this provision inappropriately "limits the basket of rights available to an essential patent owner" in contravention of U.S. law, the DOJ explained that there is no "unique set of legal rules [that] should be applied in disputes concerning patents subject to a F/RAND commitment that are essential to standards (as distinct from patents that are not essential) . . . . Such an approach would be detrimental to a carefully balanced patent system, ultimately resulting in harm to innovation and dynamic competition."

In this vein, the DOJ acknowledged that the 2015 BRL "has proven incorrect . . . in anticipating that 'hold-up' would be a competitive problem." Instead, it explained that "concerns over hold-up as a real-world competition problem have largely dissipated." Consistent with its prior statements of interest, the DOJ referred to the Ninth Circuit's reasoning in *FTC v. Qualcomm, Inc.* to explain that courts should more appropriately review FRAND disputes under contract law and that courts should therefore analyze essential patents "the same as they would other patents."

Indeed, the DOJ warned that depriving an innovator the tool of injunctive relief—whether under the express policy of the relevant standard-setting organization (e.g., IEEE) or by subjecting the innovator to the threat of suit for treble damages—might create a situation in which "an implementer can freely infringe, knowing that the most he or she will eventually have to pay is a reasonable royalty rate."

A Policy Recommending a SSPPU Royalty Base Inappropriately Skews Negotiations

The 2020 Update next criticizes the IEEE policy recommending that patent licenses use the SSPPU as the relevant royalty base. The DOJ acknowledged that various drawbacks associated with using the SSPPU as the royalty base "have come into sharper relief in the years since" the 2015 BRL, including that "real-world licenses often set royalties based on end-product revenue."

For this practical reason alone, the DOJ stated that parties should not be discouraged from using the end product as the appropriate royalty base, because "this sort of market-based evidence is often 'the most effective method of estimating an asserted patent's value.'" And while some courts have recognized that using the end product as the royalty base has shortcomings too, the DOJ noted that these "largely stem from concerns about how end-product revenues might skew juries' awards," rather than rendering a royalty unreasonable.

The DOJ quoted the Ninth Circuit opinion in *Qualcomm* to reiterate that the SSPPU is a damages concept and not a "per se rule for 'reasonable royalty' calculations": "instead, the concept is used as a tool in jury cases to minimize potential jury confusion when the jury is weighing complex expert testimony about patent damages." For this reason, the DOJ articulated that "parties should be given flexibility to fashion licenses that reward and encourage innovation," and therefore are not obligated to use the SSPPU as the royalty base for fear of incurring antitrust liability.

Implementer "Hold Out" May Present Equal Competitive Risks to Innovator "Hold Up"

Finally, the 2020 Update observed that the 2015 BRL focused exclusively on the competitive risks from innovator "hold up" behavior "without considering the possibility of 'hold out' by patent implementers or the [IEEE] Policy's effect on patent holders' innovation incentives."

Studies since the 2015 BRL indicate that implementer "hold out" is a serious competitive concern as well, and focusing exclusively on "hold up" as an antitrust violation "risks creating 'false positive' errors of over-enforcement that would discourage valuable innovation," especially "when, as is often the case in the SDO [standards development organizations] context, sophisticated parties at different times can end up on either the innovator or implementer side of negotiations." Thus, the DOJ remarked that standard-setting organization policies should restrike the balance between both sides and "encourage good-faith bilateral licensing negotiation by both patent holders *and* implementers."

In sum, the DOJ's 2020 Update is a further example of the DOJ's ongoing focus on attempting to ensure that the antitrust laws are not inappropriately used in a manner that discourages innovation.

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