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Licensing of IP rights and competition law – Note by BIAC

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http://www.oecd.org/daf/competition/licensing-of-ip-rights-and-competition-law.htm

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1. Introduction

1. Intellectual property (IP) laws confer exclusive rights on holders of patents, copyright, design rights, trademarks and other legally protected rights. The creation of IP often entails substantial risk and investment. In order to promote competition and maintain incentives to innovate, absent extraordinary considerations, IP creators must not have the scope of their IP rights unduly restricted. Indeed, there is no presumption that exclusion based on IP rights or license agreements of themselves give rise to competition concerns.[1]

2. This paper focuses primarily on patents as a form of IP, and the examples and references herein are derived from that perspective. However, it should be noted that licensing of other forms of IP, such as copyright, is also an efficient means of technology transfer and development, in addition to being a vehicle to provide incentives for production, distribution and exploitation of other forms of creative works such as music, audio visual works, computer programs, visual works and more.

3. Licensing of IP often enables innovators to seek compensation for successful research and development projects that in turn maintain investment incentives, balancing these successes against investments in failed projects. In many industries the licensing of IP (such as the transfer of technology) is essential for businesses. It helps disseminate innovation, lowers barriers to entry and allows companies to integrate and use complementary technologies to which they would otherwise not have access.

4. It is therefore not surprising that most license agreements are deemed not to restrict competition and, instead, create pro-competitive efficiencies. In fact, it is only in exceptional circumstances that licensing, or licensing-related, conduct may produce anti-competitive effects. For example, while patent pools may reduce transaction costs where licensees need the various technologies aggregated in the pool, eliminate double marginalization and may lessen concerns associated with patent thickets, they may also raise anti-competitive concerns if the pool includes substitute technologies. Similarly, it is well-established that an IP owner may violate the competition rules, for instance by providing incorrect information to patent agencies in an attempt to artificially create or extend patent protection.[2]

5. However, any finding of antitrust liability should be based on a robust theory of harm and a detailed analysis of the economic effects of the conduct. That assessment should in addition be firmly based on the notion that intellectual property rights, including standard essential patents (SEPs) do not necessarily confer market power, let alone monopoly

[1] *See* Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements, 2014 O.J. (C 89) 3; U.S. DEP'T OF JUSTICE ANTITRUST DIV. & FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY (Jan. 12, 2017), [hereinafter U.S. 2017 IP GUIDELINES] *available at* www.justice.gov/atr/IPguidelines/download.

[2] *See*, in Europe, respectively, Case C-457/10P—AstraZeneca v. Comm'n (2012), ECLI:EU:C:2012:770, and Case C–170/13—Huawei Technologies Co. Ltd v. ZTE Corp., ECLI:EU:C:2015:477.

power.[3] The investigation into specific licensing arrangements should first and foremost concentrate on interbrand and inter-technology competition. In this respect, *Business at OECD* notes that some competition agencies treat intrabrand or intra-technology restrictions as prima facie illegal without applying a standard of review based on facts specific to the case at hand. *Business at OECD* notes that this approach is at odds with economic insights and is concerned that this approach may result in sub-optimal, inefficient licensing arrangements.

6. When discussing the interface between IP licensing and competition law, a number of general signposts are relevant.

7. First, IP rights exist by virtue of IP legislation and usually on the basis of national laws, in particular patent law. It is important to realize that the role of IP law is to assign property rights, taking into account the trade-offs between the incentives to innovate of both initial and follow-on innovators, potential static welfare losses from higher product prices during the exclusivity period, and the diffusion of knowledge. In contrast, the role of competition policy is to temper the use of IP-based market power when significant competition abuses give rise to market power.

8. Because IP law already strikes a careful balance between reward, static efficiency and diffusion of knowledge, *Business at OECD* takes the view that the exercise of IP rights, including the exclusion of others from the use of these rights, does not, a priori, provide a basis for competition enforcement agencies to modulate the application of IP rights across different sectors or to address any perceived failures of competition that result from the IP system. Nonetheless, and as further discussed below, *Business at OECD* observes a trend of heightened antitrust scrutiny and interventions in cases where competition agencies appear to have doubts whether the IP system generates the "appropriate" outcome, as well as the adoption or strengthening of competition law mechanisms to address and correct perceived failures of the IP system.[4] Because IP law already factors in a balance between reward, static efficiency and diffusion of knowledge, *Business at OECD* takes the view that competition agencies should not "second guess" the quality or validity of patents, nor are they well-placed to do so.[5] It should be noted that IP laws already are the result of a careful balancing of policy objectives, and competition agencies should maintain a focus on this core principle in antitrust cases.

[3] *See* Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, 2011 O.J. (C 11) 1, § 269 [hereinafter EC Guidelines for Assessment of Horizontal Cooperation Agreements]. With respect to SEPs, it is important to recognize that that the ability to exercise any market (or monopoly) power is constrained or mitigated by a patent holder's voluntary F/RAND commitments. In addition, with respect to SEPs, it is important to recognize that IP Holders may be required to declare to standard development organizations (SDOs) patent or patent applications that are potentially essential to a given standard.

[4] In particular, and especially in Europe, the European Commission appears to be concerned about potentially invalid IP being licensed. As a result, in 2014 it has amended the safe harbor block exemption for technology transfer agreements by no longer exempting contractual rights to terminate a license agreement in the event of a challenge of the licensed IP. This change permits licensees to more easily challenge the validity of licensed IP without the risk of the license being terminated. Commission Regulation (EU) No 316/2014 of 21 March 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements Text with EEA relevance, 2014 O.J. (L 93) 17 [hereinafter TTBER].

[5] Competition agencies may, however, wish to review independent determinations whether a particular declared patent is in fact essential, valid or infringed.

9. Second, competition agencies should recognize that courts are best placed to decide IP licensing disputes, including when those disputes involve competition law-related questions. In the event that an IP licensing dispute can be adequately addressed by a general or specialist IP court, an agency should consider deferring to the court to resolve that dispute. *Business at OECD* observes that competition agencies have become a frequent source of complaint by parties on all sides of IP disputes, often in private commercial disputes that are better left to courts.

10. The observation that there is a limited range of issues in IP licensing disputes that raise competition issues requiring agency attention also applies to SEP licensing disputes, including in Europe. The guidance that the Court of Justice has given in its *Huawei/ ZTE* judgement with regard to the question when a prospective licensee should be considered as a "willing licensee" and when, as a result, a request for injunctive relief in the context would be abusive under Article 102 TFEU, permits national courts to decide on that question. Second, as set out in more detail below, competition agencies are ill-equipped—and should preferably refrain from—providing opinions on the appropriate level of absolute magnitude of royalty rates, or the modalities of royalty rates.

11. Third, while competition agencies have some discretion to investigate alleged exclusionary conduct (i.e. Article 102 TFEU, Section 2 Sherman Act, and corresponding provisions) in relation to patent applications and IP litigation, in particular sham patent infringement litigation, it is important to realise that both the doctrine of abuse of regulatory procedures and litigation abuse are narrowly defined under most competition law regimes.

12. Fourth, it is a well-known fact that IP licensing arrangements involve market participants with diverging commercial interests. At the simplest level, IP owners have an interest in the dissemination of their technology and obtaining a return on the risk-based investments that they have made, often so that they continue investing, while technology users often seek to access to a particular technology at most favourable terms. The basis on which a settlement price is struck in this negotiation depends, almost entirely, on the legal rights afforded to the inventors to enforce their IP rights and the ability of implementers to avoid the consequences of these legal rights. This dynamic creates an environment where the parties often seek leverage through the imposition or manipulation of legal systems, including competition enforcement, to undermine the rights or resistance of counterparties and improve their bargaining position.

2. Trends in Patent Development and Licensing

13. Before discussing specific licensing practices, it is helpful to highlight a number of trends in sectors where innovation and technology licensing is important. Indeed, one may expect competition enforcement agencies to respond to those trends, either by facilitating certain licensing practices or by tightening the rules where they believe that is warranted.

14. First, especially in the Information, Technology and Communications (ITC) sector, in the past twenty years, there has been a significant increase in the number of patent applications and patents actually granted. This trend manifests itself in Europe and the United States, but also notably in Asia. For example, China's patent office received a record total of 1.38 million patent applications in 2017, more than double that of the U.S. (606,956). The patent office of Japan ranked third with 318,479 applications, followed by

the office of the Republic of Korea (204,775) and the European Patent Office (166,585).[6] This growth is not only fuelled by changes in patent legislation, but also by economic growth in Asia and the globalization of the world economy as a result of which companies in more jurisdictions are seeking to obtain patent protection.

15. Second, products are becoming more technically complex and more applications per product are being submitted.[7] This trend can be illustrated by the number of successive generations of products and the number of essential patents involved in the manufacture of these subsequent products. For example, in the mobile communications sector, approximately 100 essential "first generation" GSM patents existed, but that number has risen to 1,000 3G/ UMTS patents and 4G/TE SEPs. The number of 5G patents is not yet known precisely,[8] but the 5G patent landscape will of course become increasingly significant. By comparison, the number of essential CD patents was approximately 100, while for DVD and Blu-ray that number rose to approximately 400 and 2,000, respectively.

16. In sum, nowadays, in the ICT sector a much larger number of SEPs is in the hands of a larger number of (new) patent holders with varying strategic considerations. These patents obviously have wildly varying values. Thus, while the mean and median values of these patents have declined, they increasingly function as strategic negotiation tools. Moreover, companies submit an increasing number of patent applications to maintain their negotiating position. In some ICT sectors, this has led to patent clusters or "patent thickets" which prospective suppliers must navigate to manufacture a product that meets a certain technical standard.[9]

17. The number of patents is also significant in the pharmaceutical sector with 6,330 applications made to the European Patent Office in 2017.[10] The number of patents and patent applications for medicines in Europe is estimated at 40,000.[11]

18. It is obviously difficult to quantify how many patent licensing agreements and other technology transfer agreements exist or to quantify the value they represent. EU innovation data suggests, however, that half of all enterprises in the EU-27 Member States (excluding Greece) reported innovation activities.[12] Of these companies, approximately 25% are engaged in cooperation with other companies. A 2009 OECD/EPO study confirmed that

[6] *Facts and Figures*, WIPO, *available at* www.wipo.int/edocs/infogdocs/en/ipfactsandfigures2018/.

[7] It appears that as more technical standards are developed that standardization activities are more fragmented and that more parties participate in standardization activities.

[8] *See* ERICSSON, ESTIMATING THE FUTURE 5G PATENT LANDSCAPE (Oct. 2018), *available at* www.ericsson.com/assets/local/patents/estimating-the-future-5g-patent-landscape.pdf.

[9] *See* PIERRE REGIBEAU & KATHARINE ROCKETT, ASSESSMENT OF POTENTIAL ANTICOMPETITIVE CONDUCT IN THE FIELD OF INTELLECTUAL PROPERTY RIGHTS AND ASSESSMENT OF THE INTERPLAY BETWEEN COMPETITION POLICY AND IPR PROTECTION (Nov. 2011), *available at* https://publications.europa.eu/en/publication-detail/-/publication/21c2bdb4-e366-48a3-b0eb-a26e83024d10/language-en.

[10] EUR. PATENT OFFICE, ANNUAL REPORT 2017, *available at* www.epo.org/about-us/annual-reports-statistics/annual-report/2017/statistics/patent-applications.html#pharmaceuticals.

[11] *See* EUR. COMM'N, PHARMACEUTICAL SECTOR INQUIRY FINAL REPORT ¶ 422 (July 8, 2009), *available at* http://ec.europa.eu/competition/sectors/pharmaceuticals/inquiry/staff_working_paper_part1.pdf.

[12] *European Innovation Scoreboard*, EUR. COMM'N, https://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards_en.

the value and volume of patent licensing has expanded over recent years as a result of increased competition, globalization and a trend towards more open models of innovation based on collaboration and external sourcing of knowledge. It also provides statistical evidence that approximately 20% of European companies license intellectual property.[13]

3. The Economics of Patent Licensing

19. *Business at OECD* notes that there is wide-spread consensus on the basic economics of IP licensing and highlights the following key points.

20. First, it is now common wisdom that IP rights, including SEPs, do not necessarily confer monopoly power where competing technologies and innovations seek to capture market shares. Instead, the question of monopoly power requires a fact-specific, case-by-case analysis, which generally requires consideration of what constitutes a relevant market, whether there are potential substitutes to the patented technologies (including workarounds), and other factors.[14] With respect to SEPs, an additional question is whether the ability to exercise any monopoly (or market) power is constrained by a patent holder's voluntary FRAND commitments.

21. In the U.S., in 2006, the U.S. Supreme Court adopted the approach taken by the U.S. agencies in their 1995 Antitrust Guidelines for the Licensing of Intellectual Property, holding that patents do not necessarily confer market power.[15] With respect to SEPs, one U.S. court has explicitly held that owning an SEP does not necessarily confer market power.[16] This position is also expressed by the Assistant Attorney General of the U.S. Department of Justice's Antitrust Division (DOJ).[17] A former Acting Assistant Attorney General has, however, pointed out that when a standard incorporating patented technology becomes established, that technology may gain market power.[18] In the EU, it is a well-established principle that the mere ownership of IP rights does not in itself confer a dominant position.[19]

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[13] Maris Pluvia Zuniga & Dominique Guellec, *Who Licenses out Patents and Why?: Lessons from a Business Survey* 12 (OECD Sci., Tech. & Indus., Working Paper No. 2009/05, 2009), *available at* https://doi.org/10.1787/224447241101.

[14] For a chart depicting the approaches taken in China, India, Japan, Korea and the European Union, *see* Appendix A of Jorge Padilla, Douglas H. Ginsburg & Koren W. Wong-Ervin, *Antitrust Analysis Involving Intellectual Property and Standards: Implications from Economics*, HARVARD J. L. & TECH (forthcoming 2019), *available at* https://ssrn.com/abstract=3119034.

[15] Ill. Tool Works Inc. v Indep. Ink, 547 U.S. 28 (2006); U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY § 2.2 (1995), *available at* www.justice.gov/atr/archived-1995-antitrust-guidelines-licensing-intellectual-property. The 1995 guidelines were updated in 2017. *See* U.S. 2017 IP GUIDELINES, *supra* note 1.

[16] ChriMar Sys. v. Cisco Sys., 72 F. Supp. 3d 1012 (N.D. Cal. 2014).

[17] Makan Delrahim, The "New Madison" Approach to Antitrust and Intellectual Property Law, Address Before the University of Pennsylvania Law School (Mar. 16, 2018), *available at* www.justice.gov/opa/speech/file/1044316/download.

[18] Renata Hesse, Six "Small" Proposals for SSOs Before Lunch, Address Before the ITU-T Patent Roundtable 4 (Oct. 10, 2012), *available at* www.justice.gov/atr/file/518951/download.

[19] *See, e.g.*, Joined Cases C-241/91 P & C-242/91 P, Radio Telefis Eireann (RTE) & Indep. Tel. Publ'ns Ltd (ITP) v. Comm'n, , ECLI:EU:C:1995:98, ¶ 46. *See also* EC Guidelines for Assessment

22. Second, recognizing that the owner of an IP right may legitimately prevent others from using the protected technology, the dissemination and disclosure of the innovation protected by the IP right is, almost by definition, efficiency-enhancing. In fact, IP licensing contracts will generally be procompetitive, fostering both innovation ex ante and competition ex post.[20] The economic literature has identified a number of efficiencies associated with IP licensing. As IP is typically an input, many of the efficiencies that are associated with vertical agreements generally also apply to IP licensing agreements.[21]

23. Third, *Business at OECD* agrees with the general proposition that—like conventional vertical agreements—IP licensing agreements may in some cases give rise to negative effects. However, *Business at OECD* submits that the potential for such negative effects may generally be smaller in light of the specific features of technology licensing. For example, while collusion may theoretically occur between manufacturers of competing products that have both entered into the same manufacturing license, it is difficult to see that the license agreement itself would bring about that effect. Similarly, anticompetitive foreclosure as a consequence of IP license agreements seems quite remote, especially in SEP settings, where licensors are generally under an obligation to license their IP on FRAND terms. As a result, access to the technology will generally be available.

24. In this light, the potential for negative effects in the context of patent licensing should concentrate primarily on interbrand and inter-technology competition, while intrabrand and intra-technology concerns should play a secondary role. *Business at OECD* is concerned, however, that a number of restrictions on intrabrand competition are treated as by-object or pseudo per se restrictions of competition under European competition law.[22]

4. Comments on Specific Clauses in Patent Licensing Agreements and Licensing Practices

25. The Secretariat's Background Note[23] discusses a number of specific provisions commonly included in IP licensing agreements. *Business at OECD* offers the following comments.

26. ***Pricing Arrangements and Output Restraints***. *Business at OECD* agrees with the observation made in the Background Note that price agreements may have pro-competitive effects, for example by inducing licensees to invest in the promotion of the licensed products, innovation and promoting innovation. As noted, the main anti-competitive risk flowing from such arrangements is reduced intra-technology competition, which should be subject to an effects-based analysis.[24] Thus, the blanket (or quasi) prohibition of minimum resale prices is at odds with the notion that resale price maintenance (RPM) often may not

of Horizontal Cooperation Agreements, *supra* note 3, ¶ 269; Case AT.39985—Motorola – Enforcement of GPRS Standard Essential Patents, Comm'n Decision, ¶ 223 (Apr. 29, 2014), *available at* http://ec.europa.eu/competition/antitrust/cases/dec_docs/39985/39985_928_16.pdf.

[20] *See* Pluvia Zuniga & Guellec, *supra* note 13, at 5-6.

[21] OECD, VERTICAL RESTRAINTS FOR ON-LINE SALES, DAF/COMP(2013)13 (Sept. 12, 2013), *available at* www.oecd.org/competition/VerticalRestraintsForOnlineSales2013.pdf.

[22] *See* TTBER, *supra* note 4, art. 4.

[23] OECD, Licensing of IP Rights and Competition Law—*Background Note by the Secretariat*, DAF/COMP(2019)3 (Apr. 29, 2019), [hereinafter *Background Note*] *available at* https://one.oecd.org/document/DAF/COMP(2019)3/en/pdf.

[24] *Id*. ¶¶ 43-44.

bring about negative effects on interbrand and inter-technology competition, especially in light of the fact that an IP owner may, as a matter of principle, freely decide to license its IP.

27. ***Exclusivity, Field of Use and Territorial Restraints.*** Exclusivity, field-of-use restrictions, territorial restraints and similar arrangements included in IP licensing agreements are generally motivated by efficiency considerations. In particular, field-of-use restrictions are frequently agreed upon to define the scope within which the licensee is permitted to use the licensor's technology and provide an incentive for licensors to license their technology in the first place. Exclusivity territorial restraints and similar arrangements generally seek to stimulate the manufacture and sale of the licensed products in a given territory or market segment by providing licensees some protection against (intrabrand) competition from other licensees of the technology. Nonetheless, as the Background Note highlights, some jurisdictions, such as the EU, treat specific territorial restraints included in IP licensing agreements as prohibited.[25] While these prohibitions reflect the concern that the (EU) internal market is partitioned as a result of these types of clauses, this approach may result in sub-optimal and less efficient IP licensing arrangements as well as undermining the careful policy incentives behind granting IP rights, ultimately to the detriment of consumers. *Business at OECD* concurs with the conclusion of the Background Note that these types of restraints "raise antitrust concerns mainly if there is a horizontal relationship among licensors, among licensees, or between the licensor and its licensee(s)."[26]

28. ***Exclusive Dealing.*** *Business at OECD* agrees with the position that exclusive dealing in the context of IP licensing arrangements may bring about efficiencies, for example by creating a greater incentive for licensees to commercialize the licensed products or to protect the licensor's know-how. As a result, such clause may favourably affect the licensor's incentive to innovate. In exceptional cases, obligations imposed on licensees not to deal with competing technologies or products may foreclose access of competing technologies to the market. However, a necessary condition for this scenario is that the licensee is a critical channel to the market, something which is not likely to occur frequently, and which requires in any event a case-specific analysis and a balancing of the pro-and anti-competitive effects of the case at hand. The case for efficiency-related effects in IP licensing agreements would be stronger (and the potential negative effects weaker) compared to ordinary vertical restraints in light of the fact that IP owners may legitimately prevent others from using their patented technology.

29. ***Grant-Back Obligations.*** Grant-back obligations commonly provide that the licensee agrees to provide the licensor access to future innovations relating to the object of the license. Grant-backs protect the licensor against the possibility that the licensee might already hold know-how (or would develop that know-how on the basis of the licensing agreement) that would foreclose or overtake the licensor; therefore, grant-backs make it less risky for a firm to license its technology by assuring that it will be able to use or appropriate any improvements developed by the licensee. Grant-backs are common in licensing agreements. Regibeau et al suggest that they may be included in almost 50% of all licenses and notes that grant-backs may occur particularly in licensing agreements that involve competitors and/ or parties that are familiar with the technology.[27]

[25] *Id*. ¶ 51.

[26] *Id*. ¶ 50.

[27] Regibeau & Rockett, *supra* note 9, at 39.

30. There is wide-spread consensus that grant-backs facilitate the transfer and diffusion of technology, thereby enabling licensing agreements that otherwise would not take place. Grant-backs may also facilitate compatibility in industries where standards are important, as it allows the licensors to coordinate improvements by disseminating improvements that have been made by licensees.

31. A large part of the economic literature has concentrated on the most obvious anti-competitive concern, i.e. the potential of grant-backs to reduce licensees' incentive to engage in research and development to improve the licensed technology.[28]

32. ***No-Challenge Provisions.*** No challenge clauses impose obligations on licensees not to challenge the validity of the licensed IP rights. While some commentators take the view that no-challenge clauses are objectionable because they may prevent invalid intellectual property rights from being challenged and eliminated, many others believe that these types of clauses preventing opportunistic challenges of IP rights after the licensing agreement has been entered into. The premise is that a prospective licensee is able to assess the validity of the IP right before it enters into a license resulting in a licensing structure that incorporates a probabilistic valuation of the patent or patent portfolio under license. This is particularly true with regard to license agreements of large patent portfolios where individual patent valuation is impractical. By the same token, it would be legitimate to allow the licensor to terminate the license agreement if the underlying licensed IP is challenged by a third party or otherwise found to be invalid; terminating would merely restore the ex-ante bargaining position.

33. *Business at OECD* agrees with the observation in the Background Note that no-challenge and termination upon challenge provisions are less likely to be anticompetitive in the context of exclusive licensing agreements.[29] Indeed, in those cases, the licensor may become dependent on its sole licensee. A right to terminate the license in the event the licensee would challenge the licensed IP may then function as a protection against [unreasonable] conduct of the licensee.

34. ***Refusal to License and Compulsory Licenses***. As the Background Note observes, "[i]t is widely acknowledged that, as far as competition policy is concerned, [IP owners] should generally be free to refuse to license [their IP to] other firms, and to limit exploitation of the innovation either to [themselves] or to its selected licensee(s)."[30] Under EU competition law, a refusal to license may under exceptional circumstances constitute a violation of Article 102 TFEU where the IP owner holds a dominant position and where the refusal to license eliminates competition and prevents the development of new products for which there is potential demand.[31] The rationale underlying European case law in this area is that a compulsory licence should be granted where a dominant firm is acting abusively in the market, and a license would avoid an anti-competitive outcome. Nonetheless, a requirement of truly "exceptional" circumstances is critical to avoid disincentivizing innovation.

[28] *Id*. at 41.

[29] *Background Note*, *supra* note 23, ¶ 63.

[30] *Id*. ¶ 83.

[31] Case C-238/87, AB Volvo v. Erik Veng (UK) Ltd., EU:c:1988:477; Case T-201/04, Microsoft v. Comm'n [2007], ECLI:EU:T:2007:289; Case C-418/01, IMS Health v. NDC Health ECLI:EU:C:2004:257.

35. This outcome stands in contrast to other jurisdictions. For example, U.S. antitrust law does not generally impose upon parties, including owners of IP, a duty to deal or to otherwise aid competitors.[32] With respect to IP rights in particular, the U.S. antitrust agencies have stated that "antitrust liability for mere unilateral, unconditional refusals to license patents will not play a meaningful part" in their enforcement efforts.[33]

36. There are no court decisions in the U.S. ruling on an alleged refusal to license a FRAND-committed SEP. That being said, in 2017, the FTC filed a complaint alleging that Qualcomm engaged in unlawful monopolization by seeking to unlawfully maintain its alleged monopoly in baseband processors (chipsets) through a variety of conduct, including refusal to license its FRAND-committed SEPs to component manufacturers such as chipset makers.[34] The allegation is that a vertically integrated SEP holder (i.e. one that both licenses patents in the upstream market and sells chipsets in the downstream market) refused to license competing chipset makers.[35] Importantly, the FTC's position is based on the contractual commitments made by Qualcomm in respect of certain Standard Development Organizations (SDOs) as compared to an inherent obligation to license its technology in order to prevent downstream or competitive foreclosure. On May 21, 2019, the U.S. FTC won the first round of litigation against Qualcomm in the Northern District of California.[36]

37. The U.S. DOJ has explained its current position that a patent holder's commitment to license its SEPs on FRAND terms should not be transformed "into a compulsory licensing scheme"[37] and that refusals to license "should be [considered] *per se* legal."[38] A

[32] Verizon Communs., Inc. v. Law Offices of Curtis V. Trinko, LLP, 540 U.S. 398 (2004).

[33] U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION 6 (2007), *available at* www.justice.gov/sites/default/files/atr/legacy/2007/07/11/222655.pdf; *see also* U.S. 2017 IP GUIDELINES, *supra* note 1.

[34] The FTC vote to file the complaint was 2-1. *See* Fed. Trade Comm'n's Complaint for Equitable Relief, Fed. Trade Comm'n v. Qualcomm, Inc., No. 5:17-CV-00220 (N.D. Cal. Jan. 17, 2017), *available at* www.ftc.gov/system/files/documents/cases/170117qualcomm_redacted_complaint.pdf; Dissenting Statement of Commissioner Maureen K. Ohlhausen, In re Qualcomm, Inc., File No. 121-0199 (Jan. 17, 2017), *available at* www.ftc.gov/system/files/documents/cases/170117qualcomm_mko_dissenting_statement_17-1-17a.pdf.

[35] *See* FTC v. Qualcomm Inc., 2017 U.S. Dist. LEXIS 98632 (N.D. Cal. 2017).

[36] FTC v. Qualcomm Inc., 2019 U.S. Dist. LEXIS 86219 (N.D. Cal. 2019).

[37] Makan Delrahim, Take It to the Limit: Respecting Innovation Incentives in the Application of Antitrust Law, Address Before the USC Gould School of Law–Application of Competition Policy to Technology and IP Licensing 12 (Nov. 10, 2017), *available at* www.justice.gov/opa/speech/file/1010746/download.

[38] *Id*. at 8. *But see* Bill Baer, Reflections on the Role of Competition Agencies When Patents Become Essential 10 (Sept. 11, 2015), *available at* www.justice.gov/opa/file/782356/download ("In addition, although getting access to certain patents, especially differentiating patents owned by one's competitor, may be commercially desirable for companies who wish to use the technology in their own products, patent holders may not want to license them. In our view, there are extremely limited situations, if any, in which a patent may be considered "necessary" or "essential" to compete in a market and, on that basis alone, make a refusal to license a patent an antitrust violation. Forced sharing of patents that does not remedy some cognizable harm to competition is a misappropriation of assets that creates disincentives to innovation and investment.").

per se lawful standard is "consistent with [an SEP holder's] fundamental right to exclude"[39] and "strong policies against compulsory licensing."[40]

38. ***Compulsory Licensing.*** For the same reasons as set out above in relation to refusals to license, *Business at OECD* is of the opinion that compulsory licenses are likely to deter innovation and result in decreased dissemination of know-how and technology[41] *Business at OECD* also agrees with the observation that drafting adequate remedies in the form of a compulsory license is complex, requires expert knowledge that competition enforcement agencies often do not possess, and may produce both positive and negative welfare effects that are difficult to measure.[42]

39. Finally, as the Background Note acknowledges, the multi-jurisdictional nature of many IP-affected markets may pose jurisdictional problems where competition agencies seek to impose a mandatory IP license that extends beyond the territorial scope of their jurisdiction. *Business at OECD* refers to its submission for the 2017 OECD Competition Committee Roundtable on the Extraterritorial Reach of Competition Remedies.[43]

40. The recent discussion surrounding the appropriate antitrust enforcement response against platforms in the digital economy illustrates that the compulsory licensing doctrine is particularly topical. For example, in March 2019, the EC published a report of three experts suggesting that mandatory access to data may be appropriate and necessary to ensure that digital markets remain competitive.[44] *Business at OECD* is supportive of an exchange of views how best to respond to perceived competitive problems in the digital era. However, *Business at OECD* strongly opposes suggestions that antitrust enforcement agencies should be allowed to intervene in digital markets on the basis of lower evidentiary standards than currently apply, in particular in the absence of an in-depth analysis of the pros and cons of antitrust enforcement versus regulation.

41. ***Cross-Licences and Patent Pools***. Over the past two decades, a number of prominent competition agencies have developed a reasonably adequate framework for the analysis of patent pools, recognizing that the pooling of technologies and the availability of one single license under multiple IP rights of different IP holders potentially lowers transaction costs and brings about important other efficiencies.[45] These benefits are particularly likely to arise in markets characterized by "patent thickets," i.e. many patents owned by different IP holders, that may be difficult to navigate by companies wishing to implement the (standardized) technologies in the absence of patent pools.

42. The aggregation of complementary patents, including SEPs, should not ordinarily give rise to antitrust concerns. However, the inclusion in a SEP patent pool of complementary, but non-essential patents, while often beneficial for licensees, is generally

[39] Delrahim, The "New Madison" Approach, *supra* note 17, at 5.

[40] Delrahim, Take It to the Limit, *supra* note 37, at 12.

[41] *Background Note*, *supra* note 23, ¶ 89.

[42] *Id*. ¶¶ 90-91.

[43] OECD, Roundtable on the Extraterritorial Reach of Competition Remedies—*Note by BIAC*, DAF/COMP/WP3/WD(2017)46 (Nov. 17, 2017), *available at* https://one.oecd.org/document/DAF/COMP/WP3/WD(2017)46/en/pdf.

[44] JACQUES CRÉMER, YVES-ALEXANDRE DE MONTJOYE & HEIKE SCHWEITZER, COMPETITION POLICY FOR THE DIGITAL ERA (2019), *available at* http://ec.europa.eu/competition/publications/reports/kd0419345enn.pdf.

[45] *See* U.S. 2017 IP GUIDELINES, *supra* note 1; TTBER, *supra* note 4.

viewed with suspicion as the inclusion of those technologies might theoretically lead to foreclosure of other, non-essential technologies that are not included in the pool. As a result, IP owners may resort to less efficient means of disseminating their technology. This topic is particularly relevant as new economic developments, such as the deployment of 5G-enabled devices, likely involves the licensing of a great number of SEPs, as well as non-essential technology and requires additional analysis.

43. ***Abusive Acquisition of IP Rights.*** At times, competition enforcement agencies are confronted with claims that companies have abusively acquired or attempted to acquire intellectual property rights, for instance by filing (divisional) patent applications in a number of jurisdictions. It is important to distinguish between the legitimate exercise of intellectual property rights and cases that involve objectionable behaviour.

44. One fact pattern that may attract antitrust liability is where a company submits misleading information to the patent office in an attempt to obtain patent protection to which it is not entitled. In Europe, the Court of Justice established these facts in AstraZeneca. The Court found a violation of Article 102 TFEU, noting "the notification to the patent offices of highly misleading representations and by a manifest lack of transparency, inter alia as regards the existence of the French technical authorisation, and by which AZ deliberately attempted to mislead the patent offices and judicial authorities in order to keep as long as possible its monopoly on the PPI market."[46]

45. While deliberate attempts to mislead patent offices require investigation and scrutiny, *Business at OECD* warns against extensive interpretations of the AstraZeneca ruling that could potentially penalize legitimate IP conduct, such as the filing of divisional patent applications.

46. ***Abusive Intellectual Property Litigation.*** Concerns sometimes arise that IP infringement litigation may constitute an antitrust violation, in particular under Article 102 TFEU and corresponding provisions in other jurisdictions. For example, in the EU, obtaining and enforcing injunctive relief against a "willing licensee" may be abusive in the context of SEPs. In the U.S., bringing "sham" litigation based on objectively baseless intellectual property claims may constitute an abuse. However, under EU law, the standard for vexatious litigation is high and must meet two cumulative conditions. First, the action cannot be reasonably considered as an attempt to establish the rights of the undertaking and can therefore only serve to harass the opposite party. Second, the action is conceived in the framework of a plan whose goal is to eliminate competition.[47] Outside of these contexts, however, there may be a narrow field of potential situations in which litigation may constitute an antitrust violation.

47. ***Standardisation-Related Conduct and SEPs.*** As the Background Note observes, technical standards have become particularly important in a number of industries, including computing and telecommunications. The welfare effects of standardisation are overwhelmingly positive as technical standards allow interoperability between different products.

48. In 2014, *Business at OECD* submitted detailed observations regarding standard-setting, including appropriate institutional and contractual mechanisms to promote -

[46] Case C-457/10P—AstraZeneca v. Comm'n (2012), ECLI:EU:C:2012:770, ¶ 93.

[47] Case T-111/96, Promedia v. Comm'n (1998), EU:t:1998:183, ¶ 55, 60, 61.

competitive conduct and outcomes.[48] In this submission, *Business at OECD* will briefly highlight two topics that it believes are particularly relevant for the topic of this Roundtable.

49. First, it is well established that the non-disclosure of patents or patent applications by a company that has committed itself to do so as part of the governance rules of the relevant standard development organisation, may constitute an anti-competitive "patent ambush" under antitrust law.

50. Second, the U.S. Supreme Court, in particular, has condemned efforts to use standard development organizations as a means of excluding particular competitors or products, emphasizing that such conduct can cause harm to competition. Recently, the U.S. DOJ pointed at two related situations that would raise concerns in the standards-development context. First, if a group of patent implementers were to engage in in concerted efforts to exclude a patent holder from meaningful participation in standard setting unless the patent holder agreed to offer particular licensing terms dictated by the group of implementers, those facts would raise red flags. Similarly, if patent holders A, B and C were to agree to exclude from consideration for inclusion substitute technology owned by their competitor patent holder D—rather than as a result of good faith efforts to incorporate the most effective technology—that would also raise antitrust concerns.

51. *Business at OECD* agrees with the abovementioned observations and takes the view that joint conduct in the context of standardization is unlawful to the extent that it is simply used to shield what would otherwise be per se unlawful conduct that forecloses competition.

52. ***Pricing and Price Discrimination in the Context of SEPs and Non-SEPS.*** As has been observed by many commentators, competition enforcement agencies generally do not have the power to establish whether prices are "excessive" or "unfairly high," and in cases where agencies have that power, the analytical framework for deciding when a particular price becomes abusive, is often unclear and characterised by practical and conceptual difficulties. *Business at OECD* has highlighted these complications on a number of occasions.

53. These observations apply in particular to royalty setting for the use of IPs, both because the fixed costs of innovation may require prices well above marginal costs in order to secure an adequate return on investment, and because IPRs themselves are differentiated products, which makes reliable price comparisons particularly difficult. In addition to these difficulties, competition enforcement agencies should, in *Business at OECD*'s opinion, be attentive to the possibility that excessive pricing claims in the IP context may be raised by parties that may seek to create a competitive advantage by bringing down their input costs. As noted earlier, parties often seek leverage through the imposition or manipulation of legal systems, including competition enforcement, to undermine the rights or resistance of counterparties and improve their bargaining position.

54. The question can be raised whether, in light of the above, competition enforcement agencies should become involved in the setting of FRAND royalty rates in the context of SEPS. In the U.S., there is persuasive authority of both U.S. antitrust agencies that they

[48] OECD, Intellectual Property and Standard Setting—*Note by BIAC*, DAF/COMP/WD(2014)128 (Dec. 10, 2014), *available at* www.oecd.org/officialdocuments/displaydocument/?cote=DAF/COMP/WD(2014)128&doclanguage=en.

"don't use antitrust enforcement to regulate royalties."[49] Chairwoman Ramirez has explained in this context that "it is important to recognize that a contractual dispute over royalty terms, whether the rate or base used, does not raise in itself antitrust concerns."[50]

55. However, a number of agencies outside the U.S., in particular the European Commission, have consider whether competition laws have a meaningful role to play in the setting of FRAND rates, either through the publication of best practices or principles, or the review of whether particular a FRAND offer would be "excessive" within the meaning of Article 102 TFEU.

56. *Business at OECD* respectfully recommends that antitrust agencies avoid intervening in FRAND disputes between IP owners and implementers for the reasons set out above. The parties in these matters generally have access to judicial or arbitral tribunals to resolve these private disputes. In particular, following the ECJ judgment in Huawei/ ZTE, the courts of the member states have proved willing and able to decide on these disputes, and have in particular determined whether the scope and rate of the offered licenses were FRAND.

57. A related question is whether differential royalties or licensing terms may constitute an abuse, particularly in an SEP context. To date, there is little judicial guidance on whether breaching the "ND" prong of FRAND alone amounts to an antitrust violation.

58. *Business at OECD* submits that, to the extent it would be appropriate for competition enforcement agencies to become involved in alleged discriminatory SEP licensing practices, their enforcement should be squarely based on the economic insights into differential pricing. These insights have recently been discussed by the OECD and make clear that the economic effects of price discrimination are at most ambiguous and in many circumstances have positive welfare effects. Moreover, to the extent that a non-discrimination obligation applies as a result of a contractual FRAND commitment to an SDO, that commitment sounds in contract rights and does not itself raise independent competition law questions.

59. The general economic insights into price discrimination apply mutatis mutandis to the pricing of IP. In addition, however, the pricing of IP displays a number of specificities that should be factored into the analysis of differential pricing of IP. In particular, differential pricing may be efficient in recovering of fixed (R&D) costs. Differential pricing, for instance in the form of lower royalties for early adaptors, or royalties that take account of the nature of the licensee's business may serve pro-competitive ends. It may also reflect differential stages of technological development, implementation or outside competitive conditions.

60. Finally, competition agencies are also appropriately constrained by the jurisprudence that establishes when discriminatory conduct by a dominant firm constitutes an antitrust violation. In the EU, for example, the ECJ has established that a finding of

[49] William Baer, Reflections on the Role of Competition Agencies When Patents Become Essential, Address Before the 19th Annual Int'l Bar Ass'n Competition Conference 10 (Sept. 11, 2015), *available at* www.justice.gov/opa/file/782356/download.

[50] Edith Ramirez, Standard–Essential Patents and Licensing: An Antitrust Enforcement Perspective, Address Before the 8th Annual Global Antitrust Enforcement Symposium 11 (Sept. 10, 2014), *available at* www.ftc.gov/system/files/documents/public_statements/582451/140915georgetownlaw.pdf.

violation of Article 102 TFEU requires that the act of the dominant firm create an adverse effect on downstream competition.