**UNITED STATES FEDERAL TRADE COMMISSION**
**WASHINGTON, D.C.**

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| In the Matter of<br><br>ROBERT BOSCH GMBH | ) | File No. 121-0081<br>Docket No. C-4377 |

**QUALCOMM INC.'S RESPONSE TO THE COMMISSION'S REQUEST FOR COMMENTS ON THE PROPOSED AGREEMENT CONTAINING CONSENT ORDERS**

**(77 Fed. Reg. 71593 (Dec. 3, 2012))**

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QUALCOMM Incorporated ("Qualcomm") respectfully submits these comments in response to the request of the Federal Trade Commission for public comment on the November 26, 2012 Decision and Order issued in the action captioned *In the Matter of Robert Bosch GmbH* ("*In re Robert Bosch GmbH*"). Qualcomm respectfully requests that the Commission withdraw its pronouncement that a patent holder's act of seeking injunctive relief against licensees' infringement of its standards-essential patents ("SEPs") subject to Fair, Reasonable, and Non-Discriminatory ("FRAND") licensing obligations is subject to challenge under Section 5 of the Federal Trade Commission Act, 15 U.S.C. § 45 ("FTC Act").

## I. SUMMARY

As a leading innovator and implementer of standardized technologies in the telecommunications field, and as a longstanding participant in various standard-setting organizations ("SSOs"), Qualcomm is uniquely qualified to comment on the proposed consent order in this matter, and its impact on SSOs, patentees and implementers. For the reasons stated below, Qualcomm respectfully requests that the Commission withdraw its pronouncement that a patentee's mere request for injunctive relief against a licensee's infringement of the patentee's FRAND-committed SEPs may be punishable as an "unfair method[] of competition" under Section 5 of the FTC Act.

*First*, there is no contractual basis for the Commission's assertion that a FRAND commitment waives all rights to injunctive relief. A FRAND commitment is a voluntary *contract* between an SSO and a patentee, the specific terms of which must be analyzed according to principles of contract law. The Commission, however, has apparently not made an appropriate attempt to ascertain the contractual meaning of a FRAND commitment under the terms of relevant SAE policies and the FRAND commitment itself in light of the "intent of the parties". None of the major SSO policies include any mention of a waiver of the right to injunctive relief, and the SAE Intellectual Property Rights ("IPR") Policy and SAE Policy Manual are no exception. The law requires that substantial rights (such as the statutory right to injunctive relief) cannot be waived except through express statements. By threatening to hold patentees in violation of a federal statute, here Section 5 of the FTC Act, merely for seeking injunctions on SEPs, the Commission is disregarding the intent of the parties and contravening the very source of authority, *i.e.*, FRAND policies and commitments, upon which it relies. This disregard of the parties' intent is not only without legal basis, but is unfair to participants in the standard-setting process, and threatens to disrupt the careful compromise crafted and entered into by SSO members. *See infra* Part III.

*Second*, there is no statutory basis for the Commission's contemplated enforcement actions. Importantly, the long-recognized *Noerr-Pennington* doctrine—based on the First Amendment right to petition for redress of grievances and, in this case, reinforced by separation of powers concerns—bars the Commission from sanctioning companies for filing lawsuits seeking relief to which they may be entitled by law. *See infra* Part IV.A. Even apart from this barrier, the proposed enforcement actions are outside the scope of the Commission's authority. The Commission has no mandate under antitrust laws to require "fair" pricing under any definition (the Commission's apparent goal in seeking to address a supposed "hold-up" problem). Nor does the more general language of Section 5 authorize the Commission to substitute its judgment concerning the availability of injunctions for infringement of SEPs for that of SSO participants and the courts, as it would do by bringing the contemplated enforcement actions. To make matters worse, the Commission has not provided guidelines that could distinguish lawful from unlawful conduct, as required for an exercise of authority under

Section 5 that would reach well beyond the scope of ordinary antitrust law. Instead, the Commission proposes to bring enforcement actions in "appropriate cases" that it makes no attempt to define. *See infra* Part IV.B.

*Finally*, the Commission is essentially proposing to lay a regulatory hand on IPR licensing terms affecting broad areas of commerce in the absence of any factual demonstration of a problem that needs fixing. Neither the Commission nor anyone else has identified *any* factual basis for the assertion that "hold-up" is harming competition or consumers in standardized industries. To the contrary, SSO and industry-participant commentators have overwhelmingly reported that "hold-up" is *not* a real-world problem. Nor does the Commission provide any factual basis for its assumption that the mere fact of including a request for injunctive relief in a patent complaint asserting FRAND-encumbered SEPs is likely to harm competition or consumers. Instead, it is the Commission's threatened regulatory intervention to redefine the contractual FRAND commitment that risks disrupting a balance of interests carefully negotiated within SSOs. This in turn threatens to decrease incentives for investment in research and development ("R&D"), active participation in the standards-setting process and the making of FRAND commitments, all to the injury of competition for innovation and, ultimately, of consumers. *See infra* Part V.

## II. STATEMENT OF INTEREST.

Qualcomm is one of the world's leading communications technology development and licensing companies. Understanding that R&D is the lifeblood of innovation, Qualcomm invests enormous amounts in developing new technologies, in particular cellular communications and other advanced communications technologies: $3 billion in 2011, rising from $2.5 billion the year before. Qualcomm also holds a significant patent portfolio covering its inventions, containing over 33,000 patents, which it licenses worldwide to more than 200 licensees, and Qualcomm has over 77,000 patent applications pending worldwide. In addition, Qualcomm is a leading supplier of chipsets for wireless devices, and is the fourth largest chipset supplier in the world. Qualcomm also licenses intellectual property from third parties. Because industry standards are prevalent for cellular devices and infrastructure equipment, as well as other communications products, Qualcomm is a very active and longstanding participant in numerous SSOs, including the European Telecommunication Standards Institute ("ETSI"), the Institute of Electrical and Electronics Engineers ("IEEE"), the Telecommunications Industry Association ("TIA"), the Alliance for Telecommunications Industry Solutions ("ATIS"), and others. Qualcomm has actively participated over the years in multiple deliberations within these and other SSOs concerning policies regarding FRAND commitments and licensing of SEPs.

Qualcomm's business model situates it at the intersection of the licensor/implementer tension. Since Qualcomm is both a technology licensor *and* a supplier of chipsets for incorporation into equipment that implements standardized technologies, Qualcomm's business success depends on access to others' patents and the ability to monetize (and if necessary enforce) its own patents—including SEPs and other, non-standards-essential patents.

Qualcomm is therefore particularly well placed to comment on the Commission's contemplated enforcement actions, and their impact on SSOs, patentees and implementers. Qualcomm appreciates the Commission's consideration of these comments.

## III. THE COMMISSION'S PREMISE THAT A PARTY THAT MAKES A COMMITMENT TO LICENSE ON FRAND TERMS HAS WAIVED ALL RIGHTS TO INJUNCTIVE RELIEF UNDER ALL CIRCUMSTANCES IS MISTAKEN.

The Commission asserts that, where a SEP holder has made a FRAND commitment, seeking injunctive relief represents a "failure" to meet "the FRAND terms it agreed to".[1] Similarly, the Commission states that "[p]*ursuant to its FRAND obligations*, Bosch [collectively with SPX, the "Patentee"] has agreed not to seek injunctive relief against such third parties, unless the third party refuses in writing to license the patent consistent with the letter of assurance [*i.e.*, even on FRAND terms], or otherwise refuses to license the patent on terms that comply with the letter of assurance as determined by a process agreed upon by both parties (*e.g.*, arbitration) or a court."[2] The Patentee may have agreed—in order to accomplish its merger—to the strict limitations demanded by the Commission on seeking injunctions as to certain SEPs, but those limitations are not and never have been required by its "FRAND obligations".

### A. <u>FRAND Obligations Arise from Contracts and Must Be Interpreted According to Principles of Contract Law.</u>

The starting point to understanding the scope of FRAND obligations is to recognize a FRAND commitment for what it is: an enforceable contract voluntarily entered into by private parties, rather than a creation of statute, economic theory or public policy mandate. No legislative, executive or judicial body has created FRAND undertakings and imposed them on holders of SEPs. Instead, a patentee voluntarily makes a FRAND commitment to an SSO as part of the SSO's standard-setting work and in the context of that SSO's IPR policy, and

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[1] Analysis of Agreement Containing Consent Orders to Aid Public Comment, *In re Robert Bosch GmbH*, File No. 121-0081, at 4 (F.T.C. Nov. 26, 2012) [hereinafter "Analysis"], *available at* http://www.ftc.gov/os/caselist/1210081/121126boschanalysis.pdf ("SPX's suit for injunctive relief against implementers of its standard essential patents constitutes a failure to license its standard-essential patents under the FRAND terms it agreed to while participating in the standard setting process, and is an unfair method of competition actionable under Section 5 of the FTC Act.").

[2] *Id.* at 5 (emphasis added).

implementers of the standard are third-party beneficiaries of that contractual commitment.[3] Courts across this country have recognized the contractual nature of a FRAND commitment,[4] and have rightly indicated that they will interpret and enforce a patentee's voluntary FRAND undertaking under principles of contract law.

Because a FRAND commitment is a creature of contract, its meaning—like that of any contract—must be found by means of ordinary principles of contract interpretation, looking first to the plain meaning of the agreement, and then, where not clearly answered by the agreement's plain language, to the intention and understanding of the parties who formed the contract at the time of formation. The "parties" to a FRAND undertaking are the SSO that has promulgated an IPR policy (or other relevant policy), on the one hand, and the SSO member and patent owner that makes a FRAND commitment under the terms of that policy, on the other. Three lines of inquiry will shed the most light on the "intent of the parties". *First*, one should look to the *written agreements, policies and procedures* of the relevant SSO at the time the particular FRAND commitment was made. *Second*, one should look to the *deliberative history of the agreement, policy or procedure at issue* within the SSO that has framed that agreement, policy or procedure. The history of deliberations and debates, including the adoption of some proposals and rejection of others, can say much about both the "intent" and the understanding of

[3] *See, e.g.*, *Microsoft Corp. v. Motorola, Inc.*, 864 F. Supp. 2d 1023, 1032 (W.D. Wash. 2012) ("Additionally, the court reaffirms its prior decision that Microsoft, as a potential user of the 802.11 Standard and the H.264 Standard, is a third-party beneficiary to the agreements between Motorola and the IEEE and Motorola and the ITU.").

[4] *See, e.g.*, *Microsoft Corp. v. Motorola, Inc.*, 854 F. Supp. 2d 993, 999 (W.D. Wash. 2012) (holding that "through Motorola's letters to both the IEEE and ITU, Motorola has entered into binding contractual commitments to license its essential patents on RAND terms"); *Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-cv-178, 2012 WL 3289835, at *19 (W.D. Wis. Aug. 10, 2012) (holding that "Motorola's assurances that it would license its essential patents on fair, reasonable and nondiscriminatory terms constitute contractual agreements"); *Research in Motion Ltd. v. Motorola, Inc.*, 644 F. Supp. 2d 788, 797 (N.D. Tex. 2008) (declining to dismiss breach of contract claims based on alleged broken promise to license on FRAND terms); *Ericsson Inc. v. Samsung Elecs. Co., Ltd.*, No. 2:06-CV-63, 2007 WL 1202728, at *2-3 (E.D. Tex. Apr. 20, 2007) (recognizing that a dispute on FRAND terms is a contractual dispute and separate from questions of patent law).

the SSO and its members. *Third*, one should look to *licensing and negotiation custom and practice in the relevant industry*, which will have much to do with what the participants in that industry consider to be "reasonable".

Inquiries into the "intent of the parties" are inherently fact-specific; as a result, FRAND cannot be treated as or used as a justification to introduce an abstract and unitary legal rule. While FRAND commitments do vary among different SSOs—and over time within an individual SSO[5]—no major SSO IPR policy includes a blanket exclusion of injunctive or similar relief for patents subject to a FRAND commitment. This is specifically the case with respect to SAE's IPR Policy and SAE's Technical Standards Governance Board Policy Manual (the "SAE Policy Manual"), which are at issue here.[6]

The Commission claims an interest in "safeguard[ing] the integrity of the standard-setting process".[7] We caution, however, that SSOs have developed IPR policies that

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[5] For example, § 6.1 of the ETSI IPR Policy provides:

> "When an ESSENTIAL IPR relating to a particular STANDARD or TECHNICAL SPECIFICATION is brought to the attention of ETSI, the Director-General of ETSI shall immediately request the owner to give within three months an *irrevocable* undertaking in writing that it is prepared to grant irrevocable licenses on fair, reasonable and non-discriminatory terms and conditions under such IPR . . .". ETSI Rules of Procedure, 30 November 2011, Annex 6, § 6.1, http://www.etsi.org/images/etsi_ipr-policy.pdf (emphasis added).

The word "irrevocable" preceding "undertaking" was added by consensus in 2008 to clarify that the FRAND undertaking is irrevocable once made. To be clear, such amendments to an SSO policy cannot retroactively impact existing FRAND commitments, which continue to be governed by the policy in place at the time of the undertaking.

[6] For example, the SAE Policy Manual that the Commission references in paragraphs 15 and 20 of its complaint requires a SEP holder's agreement that "a license will be made available without compensation . . . [or] under reasonable terms and conditions that are demonstrably free of any unfair discrimination", but it contains no waiver of the right to seek an injunction against an unlicensed infringer. SAE International Technical Standards Board: Governance Policy § 1.14, http://www.sae.org/standardsdev/tsb/tsbpolicy.pdf (last visited Dec. 20, 2012). The current SAE IPR Policy, which the Commission does not cite in its complaint, likewise contains no waiver of the injunctive remedy, only a requirement that, if the SEP holder will enforce a SEP, "a license will be made available to all applicants without compensation or under reasonable rates, with reasonable terms and conditions that are demonstrably free of any unfair discrimination". SAE Intellectual Property Rights and Usage Policy § 2.3, http://www.sae.org/about/intelproperty/ippolicy.pdf (last visited Dec. 20, 2012).

[7] Statement of the Fed. Trade Comm'n, *In re Robert Bosch GmbH*, File No. 121-0081, at 1 (F.T.C. Nov. 26, 2012) [hereinafter "Statement"], *available at* http://www.ftc.gov/os/caselist/1210081/121126boschcommissionstatement.pdf.

carefully balance the interests of a diverse range of member-participants, including both R&D investors and implementers. This balance is critical in order to attract the necessary innovation, the necessary FRAND commitments and the necessary investments in product development that are all essential to deliver the benefits of new standardized technologies to consumers.[8] There is no evidence at all that the members of SAE (or any major SSO) intended that the making of a FRAND commitment should shift the allocation of value *from* the innovator who made the necessary R&D investments *to* implementers. The integrity of the standard-setting process would be undermined rather than "safeguarded" if the Commission reads into FRAND undertakings value-shifting obligations that are not justified under principles of contract interpretation. And there is likewise no basis, contractual or statutory, for the Commission to take actions that are inconsistent with patent law and its underlying purpose, namely providing incentives for ongoing investments in R&D to produce innovation and efficiency in the long term, in the interest of driving down prices in the short term.[9]

B. The Commission Did Not Undertake an Appropriate Contract Law Analysis.

The Commission frames its complaint in terms of the Patentee's alleged "breach" of obligations arising from the SAE Policy Manual.[10] To the extent that the complaint reflects the Commission's recognition that construing the obligations pursuant to a FRAND commitment is a matter of contract law, we agree and applaud the Commission.

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[8] *See* Richard A. Epstein, F. Scott Kieff & Daniel F. Spulber, *The FTC, IP, and SSOs: Government Hold-Up Replacing Private Coordination*, 8 J. COMPETITION L. & ECON. 1, 10-13 (2012) [hereinafter "Epstein, *et al.*"].

[9] *See infra* n. 48 and accompanying text.

[10] Complaint ¶ 20, *In re Robert Bosch GmbH,* Docket No. C-4377 (F.T.C. Nov. 21, 2012) (claiming SPX "breach[ed] . . . its commitment to offer licenses [to] its standard-essential patents pursuant to its obligations under 1.14 of the SAE Policy Manual by seeking injunctive relief over the same standard-essential patents . . . ."), *available at* http://www.ftc.gov/os/caselist/1210081/121126boschcmpt.pdf.

It appears, however, that the Commission did not perform that necessary contract-based analysis. So far as the record reveals, the Commission simply *assumed*, without analysis, that the Patentee breached FRAND commitments by seeking injunctive relief in lawsuits. The only relevant materials mentioned by the Commission are the SAE Policy Manual and a boilerplate letter of assurance.[11] As is true with other major SSOs, these documents, and SAE's IPR Policy, are utterly silent on the issue of injunctive relief. It is a basic principle of law that a substantial right will be waived only by a "clear, decisive and unequivocal" statement of intent to do so.[12] No such waiver can be found here. Advocates either *assume* the waiver, or argue based on mere inferences that in turn rest upon debatable policy and value allocation goals; but this is not the stuff of waiver.[13] Nor has the Commission undertaken any efforts to determine the intent of the parties on this subject, for example, by examining the history of the SAE Policy Manual or IPR Policy, relevant deliberations or custom and practice in the relevant industry.[14]

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[11] Analysis at 4.

[12] *See Groves v. Prickett*, 420 F.2d 1119, 1125-26 (9th Cir. 1970) ("As minimum requirements to constitute an 'implied waiver' of substantial rights, the conduct relied upon must be clear, decisive and unequivocal of a purpose to waive the legal rights involved. Otherwise, there is no waiver.").

[13] *See Apple, Inc. v. Motorola Mobility, Inc.*, No. 11-cv-178, 2012 WL 5416941, at *15 (W.D. Wis. Oct. 29, 2012) ("There is no language in either the ETSI or IEEE contracts suggesting that Motorola and the standards-setting organizations intended or agreed to prohibit Motorola from seeking injunctive relief. In fact, both policies are silent on the question of injunctive relief.").

[14] That inquiry may well show that SSO participants considered and rejected the waiver of the injunctive remedy. For example, the "legislative history" of at least one major SSO demonstrates that it rejected inclusion of language in its IPR policy that would waive all rights to injunctive relief. Language whereby a patentee making a FRAND commitment would have waived all right to injunctive relief was debated and briefly included in an ETSI IPR policy adopted in 1993. *See* Roger G. Brooks & Damien Geradin, *Taking Contracts Seriously: The Meaning of the Voluntary Commitment to License Essential Patents on "Fair and Reasonable" Terms,* in Intellectual Property and Competition Law: New Frontiers 389, 406-07 (Steven Anderman & Ariel Ezrachi, eds., 2011). However, when the current ETSI policy was adopted in 1994, that provision was *removed*. *Id.* The *only* reasonable inference from this sequence is that the ETSI membership turned their minds to the question of waiver of injunction and affirmatively decided to *exclude* any such waiver from the content of the FRAND commitment. *See, e.g.*, *Long Island Univ. Faculty Fed'n, Local 3998 v. Bd. of Trustees of Long Island Univ.*, 457 N.Y.S.2d 325, 326-27 (N.Y. App. Div. 1982) (upholding arbitrator's award that viewed as relevant to a contract's interpretation the removal of a word from that contract during negotiations).

The Commission's reference to the Patentee's evasion of FRAND commitments appears likewise to be unsupported.[15] The Commission has made no finding that the Patentee (a) refused to offer a license on FRAND terms to anyone who requested one, (b) attempted to enforce an injunction against anyone willing to take a license on FRAND terms, or (c) had any prospect of obtaining an injunction (or exclusion order) before the "FRANDness" of its offered terms had been adjudicated.

The Commission asserts without citation that "[s]eeking injunctions against willing licensees . . . can reinstate the risk of patent hold-up *that FRAND commitments are intended to ameliorate*."[16] However, the Commission cites no IPR policy language from relevant SSO policies supporting its hypothesis that FRAND commitments are *intended* to require a certain allocation of value between innovators and implementers, rather than merely to assure practical and genuine availability of the IPR necessary to the standard. With respect to the SAE Policy Manual cited by the Commission, it mentions nothing about injunctions or "hold-up", much less any statement that FRAND obligations are intended to address any risk of "hold-up".

## IV. THERE IS NO LEGAL BASIS FOR BRINGING ENFORCEMENT ACTIONS TO PUNISH SEP HOLDERS FOR SEEKING INJUNCTIONS.

To be clear, the Commission proposes to impose penalties under Section 5 against a patent holder for the act of requesting from a court of law a remedy to which the patentee may indeed be entitled under the law. Qualcomm respectfully submits that this cannot be and is not correct.

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[15] Analysis at 4-5.

[16] *Id.* at 4 (emphasis added).

A. <u>The Commission's Contemplated Enforcement Actions Would Violate the *Noerr-Pennington* Doctrine.</u>

The *Noerr-Pennington* doctrine raises a very high bar before the act of petitioning in court for a redress of grievances may itself be punished as wrongful.[17] This doctrine is based on the First Amendment right to petition, which the Supreme Court has recognized as "among the most precious of the liberties safeguarded by the Bill of Rights" and "intimately connected, both in origin and purpose, with the other First Amendment rights of free speech and free press".[18] And the Supreme Court has further recognized that "the right of access to the courts is an aspect of th[is] First Amendment right to petition" and thus constitutionally protected.[19] Among other things, the doctrine has been held to prohibit (subject to the *Noerr-Pennington* test) punishing the filing of litigation as a violation of either antitrust laws, *see Apple*, 2012 WL 3289835, at *14 (holding that "Motorola is immune from liability . . . under the *Noerr–Pennington* doctrine" with respect to Apple's claims that Motorola's patent infringement litigation against it violated the antitrust laws), or NLRB regulations.[20] It is not limited to these areas, but rather—because of its fundamental constitutional basis—"applies in all contexts".[21] Indeed, where (as here) an executive branch agency seeks to prohibit a petitioner from bringing a

[17] *See ERBE Elektromedizin GmbH v. Canady Tech. LLC*, 629 F.3d 1278, 1291 (Fed. Cir. 2010) ("The *Noerr-Pennington* doctrine generally immunizes a party from antitrust liability based on its filing of a lawsuit unless the narrow 'sham litigation' exception applies."); *Byers v. Intuit, Inc.*, 600 F.3d 286, 298 (3d Cir. 2010) ("Under the Noerr-Pennington doctrine, a party who petitions the government for redress generally is immune from antitrust liability. . . . even if there is an improper purpose or motive.").

[18] *United Mine Workers of America, Dist. 12 v. Ill. State Bar Ass'n*, 389 U.S. 217, 222 (1967).

[19] *Bill Johnson's Rests., Inc. v. Nat'l Labor Relations Bd.*, 461 U.S. 731, 741 (1983); *see also Cal. Motor Transp. Co. v. Trucking Unlimited*, 404 U.S. 508, 510 (1972).

[20] *See, e.g.*, *Bill Johnson's*, 461 U.S. at 741-43 (applying *Noerr-Pennington* principles to conclude that the NLRB could not enjoin as an "unfair labor practice" the filing and prosecution of a well-founded yet retaliatory lawsuit); *see also BE & K Constr. Co. v. Nat'l Labor Relations Bd.*, 536 U.S. 516, 522, 536-37 (2002); *Sosa v. DirecTV, Inc.*, 437 F.3d 923, 931 (9th Cir. 2006) (acknowledging that the Supreme Court in *Bill Johnson's* applied the *Noerr-Pennington* doctrine to preclude a sanction by the NLRB).

[21] *White v. Lee*, 227 F.3d 1214, 1231 (9th Cir. 2000).

suit before a court of law, the problem is *particularly* acute, as it does not involve mere denial of the right to petition for redress and seek remedies provided by law, but is also a severe intrusion by the executive branch on the province of the judiciary.[22] Perhaps for this reason, we are not aware of any case that has held that the filing of a lawsuit falling within the scope of *Noerr-Pennington* immunity could be a legitimate basis for regulatory sanction. Instead, *Noerr-Pennington* requires courts and enforcement agencies to "construe federal statutes so as to avoid burdening conduct that implicates the protections afforded by the Petition Clause unless the statute clearly provides otherwise".[23]

Further, a United States court will not rule on a request for injunctive relief in a complaint before it has adjudicated any FRAND defense, and also considers the "public interest" before issuing any injunction.[24] The ITC will engage in a similar analysis in response to a request for an exclusion order.[25] Accordingly, we believe there is no possibility that the Commission's proposal to treat the mere request for relief as a violation of Section 5 could survive a *Noerr-Pennington* challenge.

Both the American Intellectual Property Law Association ("AIPLA") and the Innovation Alliance ("IA") have detailed the *Noerr-Pennington* and First Amendment concerns

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[22] *See Bill Johnson's*, 461 U.S. at 745 (concluding that a suit presenting a genuine issue of material fact cannot be enjoined by the National Labor Relations Board, and that doing so would "usurp the traditional fact-finding function of the state-court jury or judge"); *see also BE & K*, 536 U.S. at 538 (Scalia, J., concurring) (noting the "difficult question" whether "an *executive agency* can be given the power to punish a reasonably based suit filed in an Article III court whenever *it* concludes—insulated from *de novo* judicial review . . .—that the complainant had one motive rather than another", and stating that "[i]t would be extraordinary to interpret a statute which is silent on this subject to intrude upon the courts' ability to decide *for themselves* which postulants for their assistance should be punished") (emphasis in original).

[23] *Sosa*, 437 F.3d at 931.

[24] *See eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

[25] *Bally/Midway Mfg. Co. v. U.S. Int'l Trade Comm'n*, 714 F.2d 1117, 1122 (Fed. Cir. 1983) (19 U.S.C. § 1337(d) "requires the [ITC] to consider the effect of the exclusion of imports upon the public health and welfare") (internal quotation marks and brackets omitted).

threatened by the Commission's proposed enforcement policy,[26] and Qualcomm agrees with those comments.

B. <u>Section 5 Does Not Authorize the Commission's Effort to Sanction "Unfair Pricing" for SEP Licenses.</u>

The Commission expresses concern about "hold-up", by which it means a patentee "demand[ing]" a royalty that exceeds "the economic value of the technology itself".[27] However, circuit precedent makes clear that patrolling prices—under any definition of "fairness"—falls outside of the scope of the Commission's statutory role in enforcing the Sherman Act.[28] Thus, even assuming that the Commission's theories concerning "hold-up" prices were valid (and they are not, as discussed below), the antitrust laws would provide no source of authority for such enforcement actions.

No doubt for this reason, the Commission attempts to find authority in Section 5 for its position that seeking an injunction in connection with a FRAND-encumbered SEP violates the statute, pointing out that its scope is broader than that of the antitrust laws.[29] However, even the broader scope of Section 5 provides no basis for the Commission's vague undertaking to enforce its view of "fair" prices by substituting its own judgment for that of SSO participants.

It is doubtful whether simply "charging too much" could ever be actionable under Section 5. Whatever the answer to that question may be, at the very least the Commission's contemplated enforcement actions here are not actionable under Section 5. Circuit precedent

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[26] Comments of AIPLA at 1-4, December 20, 2012, *In re Robert Bosch GmbH*, FTC File No. 121-0081 (Nov. 26, 2012) [hereinafter "AIPLA Comments"]; Comments of IA at 2-4, January 9, 2013, *In re Robert Bosch GmbH*, FTC File No. 121-0081 (Nov. 26, 2012) [hereinafter "IA Comments"].

[27] Statement at 2.

[28] Merely "obtain[ing] higher prices", without more, "has no particular tendency to exclude rivals and thus to diminish competition". *Rambus Inc. v. Fed. Trade Comm'n*, 522 F.3d 456, 464 (D.C. Cir. 2008) (holding that the Commission failed to demonstrate that patentee's deceptive conduct during standardization of memory technology concerning the scope of its patents was exclusionary in violation of the Sherman Act).

[29] Statement at 3.

makes clear that Section 5 does not give the Commission authority to take actions that give "too much power to substitute [the Commission's] own business judgment" for that of the parties.[30] This is a matter of common sense: "Otherwise, the door would be open to arbitrary or capricious administration of § 5."[31] But that is exactly what the Commission has done. The Commission has substituted its judgment that injunctions should not be available to SEP holders in certain circumstances (due to concern about a "too high" royalty), for the judgment of SSO participants (who in the give-and-take of standard setting, did not agree to relinquish their right to seek injunctions).

The Commission's substitution of its judgment for the judgment of SSO participants is all the more troubling given the lack of clear guidelines. Providing clear guidelines is essential to providing businesses with predictability concerning what constitutes lawful and unlawful conduct.[32] "When a business practice is challenged by the Commission, even though . . . it does not violate the antitrust or other laws and is not collusive, coercive, predatory or exclusionary in character, standards for determining whether it is 'unfair' within the meaning of § 5 must be formulated to discriminate between normally acceptable business behavior and conduct that is unreasonable or unacceptable."[33] The Commission likewise may not take actions that "blur the distinction between guilty and innocent commercial behavior".[34]

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[30] *See Official Airline Guides, Inc. v. Fed. Trade Comm'n*, 630 F.2d 920, 925, 927 (2d Cir. 1980) (concluding that Section 5 did not "authorize the Commission to find unlawful the . . . challenged activity", noting that the Commission's challenge was "'outside the mainstream of law concerning monopolies and monopolization'", and denying enforcement of the Commission's order on the ground that it would give it "too much power to substitute its own business judgment for that of [even] a monopolist").

[31] *E. I. Du Pont de Nemours & Co. v. Fed. Trade Comm'n* ("*Ethyl*"), 729 F.2d 128, 138 (2d Cir. 1984).

[32] *Id.* at 139 ("[T]he Commission owes a duty to define the conditions under which conduct . . . would be unfair so that businesses will have an inkling as to what they can lawfully do rather than be left in a state of complete unpredictability.").

[33] *Id.* at 138.

[34] *Boise Cascade Corp. v. Fed. Trade Comm'n*, 637 F.2d 573, 582 (9th Cir. 1980).

The requirement to provide clear guidelines that differentiate between lawful and unlawful conduct is good policy, and also a legal requirement when, as here, the Commission seeks to act well outside of its role as enforcer of the antitrust laws. Since (as discussed above) relevant SSO IPR policies and FRAND commitments do *not* contain any express waiver of the patentee's statutory right to seek injunctive relief against unlicensed infringers, and the Commission offers no showing that industry participants in fact understand such a waiver to be implicit in FRAND commitments when they make them, the Commission has identified no basis to treat requests for injunctive relief as "deceptive" or "fraudulent". Nor, as discussed below, is there a "hold-up" problem arising from SEP holders seeking injunctions and, therefore, there is no unfair coercion merely by filing a suit seeking injunctive relief.

Thus, the broad power that the Commission proposes to exercise under the auspices of addressing "hold-up" is precisely the type of "new ground" that requires crisp guidance from the Commission and receives greater judicial scrutiny.[35] Yet—as AIPLA and IA ably note in their comments[36]—the Commission has failed to provide any clear guidance. Rather, the Commission has issued a vague edict that it will bring Section 5 enforcement actions in "appropriate cases", without even attempting to define what those cases might be.[37]

[35] *See Ethyl*, 729 F.2d at 137 ("As the Commission . . . seeks to break new ground by enjoining otherwise legitimate practices, the closer must be our scrutiny upon judicial review.").

[36] AIPLA Comments at 4-5; IA Comments at 3-6.

[37] Statement at 2.

## V. THE COMMISSION HAS IDENTIFIED NO REAL-WORLD CONDUCT THAT COULD JUSTIFY ITS PROPOSED RADICAL NEW INTERVENTION IN PATENT LICENSING.

### A. There Is No Factual Basis for the Commission's "Hold-Up" Concerns.

The Commission takes as a given that a substantial "hold-up" problem exists and is distorting the market, and that "a SEP holder can demand and realize royalty payments that reflect the investments firms make to develop and implement the standard, rather than the economic value of the technology itself".[38] Neither here nor elsewhere does the Commission identify any factual basis that could support a conclusion that any such "hold-up" effect is pervading standardized industries, and it is inappropriate and incorrect to leap to this conclusion on purely theoretical grounds.

As to the theoretical, the Commission's assumption that "hold-up" is common is made suspect by countervailing factors discussed in literature but completely ignored by the Commission. For example, noted academics have previously criticized the "lock-in"/"hold-up" theory as simplistic, and have offered theoretical explanations as to why "hold-up" may in fact not be observed and may not be a significant risk in the real world of standardized industries, including:

- The basic portfolio licensing terms of major industry participants are often known before the adoption of relevant standards, precluding any surprise or "hold-up".[39]
- Major industry participants can and do engage in licensing negotiations *before* a standard is adopted, precluding "hold-up" in those licenses and (by virtue of the "ND" portion of FRAND) setting a bar for subsequent licenses that is necessarily untainted by "hold-up".[40]

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[38] *Id.*

[39] *E.g.*, Epstein, *et al.* at 15, 18.

[40] *E.g.*, *id.* at 17-18.

- Reputational constraints discourage opportunistic "hold-up" behavior: Contrary to simplistic models, standardization is a continuous and "repeat player" game, with licensing of the present generation of standards and development of the next one often going on in parallel. Unreasonable behavior by a patentee in the licensing negotiation room will make SSO members unwilling to vote for the inclusion of that patentee's technology in the next standard.[41]

As to the facts, concern about such "hold-up" is empirically unfounded and unsupportable. Neither the Commission nor anyone else has ever cited a single example in which the theorized "hold-up" has impaired implementation and success of a standard, or excluded new entrants and thereby reduced competition. This is because no evidence of any real-world "hold-up" exists.[42] SSO and industry-participant commentators, for example, have reported to the FTC overwhelmingly that patent "hold-up" is not a problem.[43] Recently, and strikingly, Microsoft's experts who sponsored the "hold-up" theory during the recent trial before Judge Robart in the Western District of Washington were unable, on cross-examination, to identify even a single SEP license that they believed reflected "hold-up" driven terms. Microsoft's expert economist Kevin Murphy summed up *all* the available information when he acknowledged that the existence of "hold-up" "is an open question".[44] Meanwhile, the cellular

[41] *See id.* at 15-22; *see also* Nov. 19, 2012 Hr'g Tr. at 173-77, *Microsoft Corp. v. Motorola, Inc.*, No. 10-cv-1823 (W.D. Wash.) (Testimony of Richard Schmalensee) (testifying, in response to questions from the court, that any potential for hold-up is mitigated by the fact that parties to licensing agreements are repeat players and have to interact with each other regularly on commercial matters well beyond a single license).

[42] *See* Richard S. Taffet, *The Federal Trade Commission's Evolving IP Marketplace Report's Challenge to Inventiveness, Innovation, and Competitiveness,* THE ANTITRUST SOURCE, Feb. 2012, at 11-15.

[43] *See* Roger G. Brooks, *Patent "Hold-Up," Standards-Setting Organizations, and the FTC's Campaign Against Innovators*, 39 AIPLA Q.J. 435, 446-49 (Fall 2011) [hereinafter "Brooks"] (summarizing industry submissions in 2011 FTC Proceedings).

[44] Nov. 13, 2012 Hr'g Tr. at 180:8-9, *Microsoft Corp. v. Motorola, Inc.*, No. 10-cv-1823 (W.D. Wash.) (Testimony of Kevin Murphy); *see also id.* at 201:25-202:1 (admitting that "hold-up has not necessarily been a problem"); *id.* at 183:21-25 (testifying that Motorola's licenses merely "could" contain hold-up); Nov. 16, 2012 Hr'g Tr. at 67:4-7, *Microsoft Corp. v. Motorola, Inc.*, No. 10-cv-1823 (W.D. Wash.) (Testimony of Timothy Simcoe) (acknowledging that he has "no evidence that the dispute between Motorola and Microsoft in this case is in fact based on hold-up"); *id.* at 135-36 (Testimony of Matthew Lynde) (acknowledging that "'I have no basis from economic evidence to conclude whether or not patent hold-up is a real problem.'").

industry that is at the center of the current debate concerning SEPs and FRAND licensing continues to show the marks of a vigorously competitive industry, most obviously in the form of rapid and continuing technological advances and changes in market share within recent years, including most dramatically the new entrant Apple becoming number one in terms of profits within five years of entry into the handset business.

Given the complete absence of real-world evidence of "hold-up", and the stringent requirements for obtaining injunctive relief under current law, it is also not surprising that the Commission cites no evidence that "negotiation that occurs under threat of an injunction"[45] has resulted in anything other than reasonable returns to patentees (or costs to licensees) as contemplated by SSO FRAND policies, or that relevant SSO policies' FRAND commitments were intended to prohibit SEP holders from seeking injunctions in court after offering FRAND terms.

### B. <u>An "Incremental Value" Analysis Provides No Basis to Identify or Punish Supposed "Hold-Up".</u>

Elsewhere, the Commission has suggested that it might look to an "incremental value" test to determine whether a royalty reflects an improper exercise of "hold-up" power,[46] but this unsubstantiated theoretical construct does not justify disruptive change to patent rights and the intent of the parties to FRAND undertakings. As has also been detailed elsewhere, there is no such thing as a uniform "incremental value" for any particular technology for all potential licensees; the concept is not tied to anything observable in the market and so would inevitably degenerate into an unbounded battle of "expert" opinions.[47] Further, we are aware of no study

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[45] Analysis at 4-5 (internal quotation marks and brackets omitted).

[46] *See* FED. TRADE COMM'N, THE EVOLVING IP MARKETPLACE: ALIGNING PATENT NOTICE AND REMEDIES WITH COMPETITION, 22-23 (March 2011).

[47] *See* Epstein, *et al.* at 37-40; *see also* Brooks, at 462-71.

finding that total royalties on SEPs in any standardized industry exceed either the value added by the IPR, or a reasonable risk-adjusted return on the innovators' R&D investments. Even more importantly, using incremental value to measure infringement damages or limit prospective license fees is wholly inconsistent with the market-driven incentive scheme created by patent law.[48] Notably, in a recent attempt to invoke an "incremental value" definition of FRAND, an expert witness for Microsoft reached the conclusion that Motorola's SEPs, which have been widely licensed over the course of many years, have "*little or no value*".[49] It would come as a distressing surprise to innovator companies to be told that, by making a FRAND commitment, they are committing to license the IP that is at the heart of standardized technologies for "little or no" royalties. In fact and on the contrary, there is no factual basis whatsoever to argue that the IPR policy of the SAE or any major SSO was *intended* to impose an incremental value rule on SEP licensing, or that SSO members have had any such understanding when they agree to license on FRAND terms.

### C. <u>The Commission's Premise that Merely "Seeking" an Injunction Provides Increased Leverage Is Not Correct.</u>

The Commission appears to believe that the mere act of "seeking" an injunction confers power on the SEP owner, regardless of the procedural context—power so substantial as to create "a very real problem that threatens competition and consumer welfare".[50] We assume that "seeking" injunctive relief refers to including a request for injunctive relief in a complaint for patent infringement, or initiating an action in the ITC that seeks an exclusionary remedy. On

[48] *Brulotte v. Thys Co.*, 379 U.S. 29, 33 (1964); *see also Warner-Jenkinson Co. v. Allied Chem. Corp.*, 477 F. Supp. 371, 396-98 (S.D.N.Y. 1979) (rejecting claim that allegedly excessive royalty rate constitutes unfair business conduct or unfair competition, or violates antitrust law, and reasoning that "[a] patent empowers the owner to exact royalties as high as he can negotiate" (quoting *Brulotte*)).

[49] Nov. 15, 2012 Hr'g Tr. at 84-86, 155, *Microsoft Corp. v. Motorola, Inc.*, No. 10-cv-1823 (W.D. Wash.) (Testimony of Jerry Gibson) (emphasis added).

[50] Statement at 3.

consideration, however, this first step in a complex and flexible legal process is very unlikely to confer leverage that did not otherwise exist.

It is exceedingly unlikely that any court or agency would grant an injunction based on a SEP prior to adjudicating an asserted FRAND-based defense.[51] Thus, as a practical matter, a genuinely willing licensee acting in good faith faces no risk of injunction regardless of the request for relief that a patent infringement complaint may contain, and everyone knows this.

At the same time, the Commission, along with other commentators, has acknowledged that injunctive relief is and must be available against an "obstinate infringer"—for example, an infringer that refuses to take a license even after the offered terms have been adjudicated to comply with the patentee's FRAND commitment.[52] And, while the Commission suggests that it only objects to seeking injunctive relief against "willing licensees",[53] the mere assertion by an infringer that it is "willing"—even while it refuses all offered terms—is hardly determinative or even informative.

Against this background, we may compare two scenarios following failed license negotiations over SEPs. In the first scenario, the patent holder files a complaint seeking past damages and injunctive relief, with all parties aware that FRAND defenses will be asserted and adjudicated before any injunction could issue. In the second scenario, the patent holder's

[51] It is well recognized that a court, after considering all the relevant evidence, may decline to issue an injunction when the infringer would in fact be licensed *but for* the failure of the patentee to comply with its FRAND commitment. This results from the doctrine of estoppel within the Common Law context, *see A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020, 1042 (Fed. Cir. 1992), and the same result is reached under different doctrinal names in Civil Law countries, *see*, *e.g.*, *Samsung Elecs. Co. Ltd. v. Apple, Inc.*, Arrondissementsrechtbank[Rb.]'s-Gravenhave, IER 2012, 10 m.nt FE, at ¶¶ 4.27-4.39 (Dist. Ct. The Hague Oct. 14, 2011).

[52] *See* Statement at 3 ("acknowledg[ing] that a FRAND commitment also depends on the presence of a willing licensee"); *see also* Third Party United States Federal Trade Commission's Statement on the Public Interest, June 6, 2012, *In the Matter of Certain Gaming & Entm't Consoles, Related Software, & Components Thereof*, Inv. No. 337-TA-752 (proposing that an exclusion order from the ITC could go into effect "if the implementer refuses a reasonable offer").

[53] Statement at 2.

complaint seeks past damages and a *declaration* that the terms it offered complied with its FRAND undertaking, reserving the right to seek injunctive relief later should it prevail on the FRAND issue.

As a practical matter, these are the same thing. In terms of the threat facing the infringer and the "bargaining leverage" obtained by the patentee, there is no difference. Yet, under the Commission's view as expressed in its Statement and in its Analysis, the first scenario could constitute an actionable violation of Section 5, while the second scenario is proper behavior.[54] This cannot be correct.

D. Injunction Availability Promotes, Not Threatens, Welfare.

There is also no basis to assert—and the Commission provides none—that merely "seeking" injunctions (*e.g.*, by requesting injunctive relief in a suit on a SEP patent) "threatens competition". A more plausible possibility is that the availability of an injunction is welfare-enhancing and encourages market-driven resolution through licensing negotiations.[55] Indeed, the welfare-enhancing benefits of granting exclusive rights to one's inventions have been recognized since at least the time of the U.S. Constitution.[56] A contrary rule—a categorical ban on injunctive relief[57]—would radically reduce incentives for infringers to engage in good faith negotiation and to take licenses voluntarily, and would instead motivate "catch-me-if-you-can"

[54] *See* Statement at 2; Analysis at 5 (asserting that the Patentee, "[p]ursuant to its FRAND obligations", will not seek injunctive relief against certain parties unless they refuse "terms that comply with the letter of assurance as determined by a process agreed upon by both parties (*e.g.*, arbitration) or a court").

[55] Epstein, *et al.* at 4-6 (explaining that the availability of injunctions has encouraged licensing negotiations and agreements, and increased innovation and competition, while the lack of injunctive relief would both increase incentives to infringe because litigating infringement would leave the infringer "no worse off" if it loses a lawsuit, and reduce incentives to innovate).

[56] U.S. CONST. Art. I, § 8, cl. 8 ("The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.").

[57] If an infringer's mere assertion that it is "willing" to take a license is accepted as sufficient to make a request for injunction improper, then the ban on injunctive relief would indeed be categorical.

infringement. This would only encourage more litigation on multiple individual patents, in multiple jurisdictions, with its related costs to the parties and to consumers. As Professors Epstein, Kieff and Spulber have stated, the background threat of an injunction or exclusion order motivates manufacturers to seek licenses early and enter into value-creating agreements with patent holders.[58] If the consequences of infringing are no worse than the cost of taking a license up front, infringement becomes rational. The result is a multiplication of the societal costs of infringement, and a diversion of the innovator's resources toward potentially serial litigation on a worldwide scale. In such a regime, innovators may rightly think twice before making such FRAND commitments. This change in incentives could alter the balance between proprietary and standardized solutions, potentially reducing the benefits of standard-setting to businesses, consumers and the economy, and also the competition that standards can facilitate.

E. <u>The Facts Cited Do Not Support Requiring the Patentee to Grant Royalty-Free Licenses.</u>

The Commission's cited justification for imposing not merely a FRAND requirement but a royalty-free license requirement on the Patentee is also unfounded. The Commission reasons that this remedy is warranted because the Patentee "has chosen to license these patents to the buyer of its ACRRR business, Mahle, royalty-free, and a license to other market place participants on the same terms is necessary to ensure that the merger remedy is not inequitable in application".[59]

This rationale, without more, does not support the imposition of a royalty-free license. There is nothing inherently unfair or discriminatory about including a royalty-free

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[58] Epstein, *et al.* at 31 ("The bottom line is that the social goal of the patent system and its attendant damage rules is not to punish (let alone reward) infringers, but to guide them not to infringe.").

[59] Analysis at 5.

license as part of a divestiture or sale of a business, while continuing to seek FRAND royalties from industry participants. Though the facts are not readily available in the public record, scenarios in which seeking FRAND royalties from industry participants would not necessarily be inequitable abound. For example, the Patentee could have transferred the relevant patents to the buyer as part of the sale of its business, leaving the buyer free to charge FRAND royalties of its competitors. Or, if the Patentee wished to retain the patents, the broader economics of the sale of the business to the buyer may (or could) have included compensation to the Patentee for a paid-up license. In other words, the fact that the Patentee agreed to grant a "royalty-free" license as part of a complex divestiture provides no support at all for the conclusion that charging other licensees running royalties would be (a) "discriminatory" in violation of FRAND or (b) in any sense "inequitable" to those other licensees. Such a conclusion would require analysis that the Commission appears not to have undertaken, including analysis of the terms of the divestiture and consideration provided for IPR generally and the license specifically, as well as analysis of the rights, if any, retained by the Patentee.

## VI. CONCLUSION

The Commission's contemplated enforcement actions conflict with the well-established and constitutionally protected right of patent holders to seek legal redress from the courts. Section 5, on which the Commission relies, provides no authority for these contemplated enforcement actions, which would be a substantial transgression on the judicial function. Nor is there anything unfair about SEP holders *requesting* injunctions where the relevant SSO IPR policies do not contain waivers of the injunctive remedy; ample procedural safeguards exist that will prevent *issuance* of any injunction unless FRAND obligations have been complied with. For these reasons, Qualcomm respectfully requests that the Commission withdraw its pronouncement that a patent holder's act of seeking injunctive relief against infringement of its FRAND-encumbered SEPs is subject to challenge under Section 5.

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Respectfully submitted,

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