EXPERT COMMENTARY

Standard Essential Patents - Hyper-competitive is Not Anticompetitive

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The delineation between anticompetitive behaviour and hyper-competitive behaviour was further defined by the U.S. Court of Appeals on August 11, 2020 in a case involving one of the largest manufacturers of modem chips. At issue is whether Qualcomm's licensing practice involving patents which are necessary for the compatibility of millions of devices contravened the Federal Trade Commission Act. Standard Essential Patents (SEPs) are patents required for the implementation of a standardized technology. Patents provide its owner a time limited monopoly to exclude others from making, selling or using the patented technology. Such a concept may be at odds with the Federal Trade Commission Act, which prohibits anticompetitive behaviour such as unfair or deceptive acts or practices in or affecting commerce.

Wireless technology is a result of a collaborative effort involving fortune 100 companies and start-ups. Wireless technology such as 5G, is highly standardized so as to ensure compatibility among devices. The standards are established by Standard Setting Organizations (SSOs). Members of SSOs have the benefit of not only setting the standards for an industry, but may use technology of other members for a fair and reasonable royalty.

An exemplary SSO is the Telecommunications Industry Association ("TIA"). SSOs, such as TIA, require that owners of SEPs commit to license their SEPs to the members of TIA on a Fair, Reasonable, and Non-discriminatory ("FRAND") term even when members of TIA directly compete with each other.

In January 2017, the Federal Trade Commission ("FTC") filed a complaint in the U.S. District Court in the Northern District of California ("The Court") charging Qualcomm with monopolizing a key semiconductor device used in cell phones. At the heart of the FTC's complaint is that Qualcomm holds SEPs that enable cellular connectivity across hundreds of networks and millions of devices and its acts were unfair and resulted in significant harm to the consumers by discouraging innovation and increasing costs.

In May 2019, the court found that Qualcomm violated Section 5(a) of the FTC Act. Among the acts the Court found that violated Section 5(a) of the FTC Act, are:

1. Threatening to cut off chip supply, withhold technical support and software to obtain elevated royalties and other license terms that OEMs would otherwise reject. The “no license no chip” policy.

2. Refusal to license SEPs to its Competitors even though Qualcomm’s FRAND commitments require Qualcomm to License its SEPs to Rivals

3. It’s exclusive deal with Apple foreclosed a substantial share of the modem chip market in violation of the Sherman Act.

4. Voluntarily stopped licensing rivals even though doing so was profitable.

5. Imposed substantial penalties on Apple if Apple purchased any modem chips from a Qualcomm rival.

In August, 2020 an unanimous panel of the U.S. Court of Appeals (“the Panel”) reversed the decision by the Court, finding that Qualcomm’s behaviour was hyper-competitive and not anticompetitive. The Panel determined:

1. Qualcomm’s threat to cut-off chip supply as a leverage to obtain a license was a justified as such a practice avoided patent exhaustion, and was supplier neutral.

2. Qualcomm has no duty to license to its rivals under the U.S. antitrust laws.

3. Qualcomm’s royalties were not unreasonably high as antitrust law does not require that royalties “precisely reflect a patent’s current, intrinsic value and are in line with the rates other companies charge.”

4. Qualcomm’s agreement with Apple is not an exclusive deal under the Sherman Act as the agreement did not preclude Apple from engaging with other suppliers, and in fact entered into an agreement with Intel the
following year.

5. The Panel rejected the FTC’s assertion that Qualcomm’s breach of its commitment to license its SEPs on FRAND terms constituted an antitrust violation.

The Panel refused to rehear the case enbanc and it is unknown if the FTC will take the matter to the Supreme Court.

However, the same acts performed outside of the United States may result in liability of a foreign country’s antitrust laws.

Considerations for SEP Owners

The refusal to license under a FRAND is not in violation of the FTC Act, and other U.S. antitrust laws; however, SEP holders may still be liable under contractual laws.

Leveraging SEPs to obtain high royalties or compel a license remains permissible with respect to antitrust laws as such an act is deemed hyper-competitive and not

anticompetitive.

A “no license, no chips” is permissible, especially in instances where the SEP refuses to sell to a customer and not a direct competitor. In Qualcomm’s case, the Panel found that its “no license, no chips” policy was not a refusal to license to a rival and thus did not invoke antitrust laws.

A refusal to license to a competitor is not anticompetitive behaviour in instances where such a refusal is profitable in the short term.

A licensing strategy which is done for a legitimate business reason such as avoiding patent exhaustion is not anticompetitive