Antitrust Liability to the Conduct of “Refusal to License” of the Standard Essential Patent



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2022/07/19

The notion of Standard Essential Patent（SEP）emerges in the era when manufacturers seek ‘‘compatibility’’ and ‘‘interoperability’’ of their products. The concept of SEPs is proposed to help manufacturers ‘‘talk’’ to each other so the collective manufacturers enjoy the advantage of economies of scales. Meanwhile, the compatibility and interoperability derived from SEPs enhance the consumers’ valuation of the product which creates the ‘‘network effect’’ of the products.

There is a long-debated issue in the field of SEP—to what extent shall the SEP holders license their patents in the various level of the supply chain. This issue has much to do with the ‘‘FRAND commitment’’, and is worthy of further analysis.

I. SEP and FRAND Commitment

The concept of SEP is—when any certain patented technology is selected by the ‘‘Standard Setting Organization’’（SSO）as the commonly used standard, such the patented technology is categorized as a SEP. The SEP holder therefore enjoys stronger ‘‘market power’’ because market participants have no choice but to use the SEP and are required to seek license from the SEP holders.

Therefore, to prevent the SEP holders from abusing their market power, SSOs usually require SEP holders to make the FRAND commitment; that is, to license on ‘‘fair, reasonable and non-discriminatory’’ terms. Once the SEP holder breaches the commitment, the SSOs might exclude that technique from the standard.

II. “License to all”or“Access to all”issues under FRAND Commitment

The FRAND commitment, by textual reading incorporates the wording of ‘‘non-discriminatory’’, and can infer two co-related yet debatable concepts—the ‘‘License to all’’ or ‘‘Access to all’’ arguments.

The ‘‘License to all’’ argument holds that all participants in the supply chain retain the access to the specified SEP, while the ‘‘Access to all’’ argument, on the contrary, contends that FRAND commitments don’t necessarily ask SEP holder to license to all practitioners, but when a SEP holder is going to license, he must license on FRAND terms.

According to observations, there is a common phenomenon in the SEP licensing practice—most SEP holders tend to license only to the End-Product manufacturers rather than to the manufacturers of the ‘‘Smallest Saleable Patent Practicing Unit’’（SSPPU）. What the SEP holders expect through ‘‘refusal to license’’ to the SSPPU manufacturers are to maximize the potential royalties. Cases inclusive of the Qualcomm case[1] and the Continental case[2] have shown such practical tendency, and only when the SSOs can well define the definitions of FRAND commitments might the issue be truly settled.

There are some End-Product manufacturers that consider it ‘‘discriminatory’’ and against the FRAND commitments if the SEP holders refuse to negotiate with SSPPU manufacturers requesting to be the licensee. On the other hand, some consider it inappropriate for the End-Product manufacturers to refuse all negotiations when the SEP holder requests it to be the party to the licensing negotiations[3].

III. The ‘‘refusal to license’’ and the derived Anti-Trust Issue

As generally admitted, a firm has no general duty to deal with others[4]; however, there are times when SEP holders’ ‘‘refusal to deal/license’’ behaviors can constitute wrongful monopoly under Sherman Act section 2. The U.S. judicial practices have categorized three main ‘‘refusal to deal/license’’ behaviors as wrongful monopoly under Sherman Act section 2; they are[5]:

1. dominant firm forces its customers not to do business with new competitors of that firm, or the dominant firm will terminate business with the customer[6];
2. dominant firm tries to abandon or alter an existing relationship[7];
3. dominant firm refuses to provide access to ‘‘essential facility’’ (the equipment or techniques that is indispensable when others would like to compete in the relevant market with the dominant firm).

As SEP can be categorized as an ‘‘essential facility’’, this paper will only focus on the third category. The ‘‘Essential Facility Doctrine’’ is—when any monopolist withholds an essential facility and refuses to provide his competitors with the access to the said essential facility, a wrongful monopoly due to the Facility holders’ ‘‘refusal to deal/license’’ is constituted.

According to the leading case—the MCI case[8], four factors are to be proved by the plaintiff when seeking resort to ‘‘Essential Facility Doctrine’’; they are:（1）the monopolist’s control of an essential facility;（2）the inability of a competitor to duplicate that essential facility;（3）the monopolist’s denial of access to that essential facility to a competitor;（4）the feasibility of providing the essential facility to the competitor by the monopolist.

As we can shortly conclude here, if a SEP holder constitute wrongful monopoly because of his ‘‘refusal to license’’ behavior, the perquisite is that the SEP holder would like to join in the ‘‘competition’’ in the relevant market himself.

IV. Conclusion—the commonly seen ‘‘refusal to license’’ behavior of SEP holders doesn’t constitute wrongful monopoly

As mentioned before, ‘‘competition’’ serves as the prerequisite for the ‘‘Essential Facility Doctrine’’; thus, some SEP holders’ refusal to license to SSPPU manufacturers behaviors—such as Qualcomm in the Qualcomm case and Nokia in the Continental case—are not in accordance with ‘‘Essential Facility Doctrine’’ and do not constitute wrongful monopoly. Qualcomm and Nokia chose not to license to SSPPU manufacturers merely because they want to earn more royalties by licensing to End-Product manufacturers; they didn’t make this choice because themselves would like to compete in the SSPPU markets.

However, since there is no clear definition of FRAND yet, whether the SEP holders have truly breached the FRAND commitment remains unsolved puzzle and shall retain to SSO’s clearer definition and the Court’s further rulings.

[1]*FTC v. Qualcomm Inc., 969 F.3d 974 (9th Cir. 2020). SEP holder Qualcomm would only like to license to the cellphone OEM manufactures rather than to other chips manufacturers.*

[2]*Continental Automotive Systems, Inc. v. Avanci, LLC, et al, No. 20-11032 (5th Cir. 2022). SEP holder Nokia and a licensing platform—Avanci (that Nokia had joined) would only like to license to car manufacturers rather than to Telematics Control Unit（TCU）manufacturers.*

[3]*Japan Patent Office [JPO], GUIDE TO LICENSING NEGOTIATIONS INVOLVING STANDARD ESSENTIAL PATENTS (2018), https://www.jpo.go.jp/e/support/general/sep_portal/document/index/guide-seps-en.pdf(last visited July 19, 2022).*

[4]*See United States v. Colgate & Co., 250 U.S. 300 (1919);Pacific Bell Telephone Co. v. linkLine Communications, Inc., 555 U.S. 438 (2009); Aerotec Int'l v. Honeywell Int'l, 836 F.3d 1171 (9th Cir. 2016)*

[5]*ANDREW I. GAVIL, WILLIAM E. KOVACIC & JONATHAN B. BAKER, ANTITRUST LAW IN PERSPECTIVE: CASES, CONCEPTS AND PROBLEMS IN COMPETITION POLICY 630-654 (2002).*

[6]*See Lorain Journal Co. v. United States, 342 U.S. 143 (1951)*

[7]*See Image Technical Services, Inc. v. Eastman Kodak Co., 504 U.S. 451 (1992); Aspen Skiing Co. v. Aspen Highlands Skiing Corp., 472 U.S. 585 (1985)*

[8]*MCI Communications Corp. v. American Tel. & Tel. Co., 708 F.3d 1081 (7th Cir. 1983)*

Links

- Japan Patent Office [JPO], GUIDE TO LICENSING NEGOTIATIONS INVOLVING STANDARD ESSENTIAL PATENTS (2018)

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Release： 2022/08

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