

DOJ Needs To Reconsider Prior Administration's Avanci Letter

By **Jay Jurata and Emily Luken** (December 21, 2022)

The Antitrust Division of the U.S. Department of Justice should reconsider a business review letter released by the previous administration concluding that the Avanci 5G patent licensing pool was unlikely to harm competition.[1]



Jay Jurata

The Avanci BRL and a Nov. 30 letter supporting it both stem from a misguided view typical of the previous administration's New Madison[2] approach that divorces competition law from fair, reasonable and nondiscriminatory-encumbered standard-essential patents despite sound precedent, policy and practice to the contrary.[3]

Specifically, both letters are incorrect regarding:

- Assumptions about the relationship between FRAND-encumbered SEPs and market power;
- Real-world events demonstrating that holdup by SEP-licensors exists;
- Applicable law concerning when injunctions are justified; and
- The Avanci BRL in the context of earlier business review letters concerning SEP pools.



Emily Luken

FRAND Limits on Market Power Conferred by Standardization

The Avanci BRL and Nov. 30 letter express doubt that SEP-holders or pools exert market power. But applicable precedent makes clear this is not a theoretical assumption. Standardization necessarily confers market power precisely because it eliminates potential competing alternatives.[4]

Consequently, most single sign-ons require FRAND commitments in exchange for inclusion of technology in the standard, serving, "important safeguards against monopoly power," the U.S. Court of Appeals for the Third Circuit wrote in the 2007 *Broadcom Corp. v. Qualcomm Inc.* decision.[5]

The same is true with respect to patents offered for licensing through a pool.

President Joe Biden's July 9, 2021, executive order on promoting competition in the American economy echoes this precedent by describing a need to "avoid the potential for anticompetitive extension of market power beyond the scope of granted patents, and to protect standard-setting processes from abuse."

There is no exception simply because the patents are placed in a pool.

Certain SEP Holders Routinely Engage in Holdup

As noted in a separate piece^[6] urging the DOJ to reassess the Avanci BRL, Avanci and its members have engaged in what appears to be a coordinated and serial litigation attack against multiple automakers, culminating in publicly announced pool licenses or events strongly suggesting pool settlements.

These include:

- Nineteen lawsuits by three Avanci members against Daimler AG in Germany;^[7]
- Lawsuits by five Avanci members against Tesla Inc. in the U.S., Japan and Germany;^[8] and
- At least seven lawsuits by seven Avanci members in the U.S. and Germany.^[9]

This campaign underscores how Avanci's litigation reimbursement mechanism eliminates incentives for members to compete against the pool because Avanci: (1) reimburses litigation resulting in a pool license, but not a bilateral one; and (2) reimburses costs for multiple members against a single automaker, provided at least one of those lawsuits results in a pool license.

This is significant because the Avanci BRL specifically credited the availability of bilateral licenses as a factor lowering the anti-competitive risk of the pool.^[10] However, the Nov. 30 letter does not acknowledge — let alone attempt to respond to — these events.

In addition to real-world events illustrating holdup, there is also a robust body of empirical research demonstrating that patent holdup is and continues to be a problem.^[11]

Voluntary FRAND Promises Should Normally Constrain the Availability of Injunctions

Even though the Avanci BRL does not address injunctions, the Nov. 30 letter goes out of its way to express the signatories' belief that FRAND places no limits on a SEP holder's ability to seek injunctive relief.

This position directly contradicts binding authority in the U.S.

Although there is no per se rule against injunctions on FRAND-encumbered SEPs, FRAND "strongly suggest[s] that money damages are adequate to fully compensate ... for any infringement," the U.S. Court of Appeals for the Federal Circuit wrote in the 2014 *Apple Inc. v. Motorola Inc.* decision.

It is thus whether monetary damages are sufficient — not the subjective negotiating behavior of the parties — that determines whether an injunction is appropriate.

Again, the Nov. 30 letter echoes the prior administration's New Madison approach, which has been correctly recognized as lacking support in applicable precedent and theory.

In fact, the Nov. 30 letter makes the same points as a New Madison-era policy guidance that the current administration rescinded: this June, the DOJ, the U.S. Patent and Trademark Office and the National Institute of Standards and Technology withdrew the

previous administration's 2019 policy statement on remedies for standard-essential patents subject to voluntary FRAND commitments.

The agencies concluded that rescission "best serves the interests of innovation and competition."

The Avanci BRL Significantly Differs From Prior DOJ BRLs

The Nov. 30 letter argues that reassessing the Avanci BRL would upend numerous other BRLs issued on SEP patent pools.

However, these historical BRLs — upon which the Avanci BRL relied — were issued at a time when the SEP licensing and assertion landscape was dramatically different.[12]

First, SEPs are asserted much more aggressively and frequently — as illustrated by the actions of Avanci members described above.

Second, and relatedly, standardized technology is a much more common feature of everyday life.

And finally, 20 years ago, there was a relative paucity of guidance concerning how FRAND commitments limit the ways SEP owners can license and enforce SEPs.

Now there is a consensus from court cases, policy statements and other guidance that the FRAND commitment is enforceable by third parties; injunctions on SEPs should be rare because monetary damages will normally suffice; and breach of FRAND can distort the competitive process.

Conclusion

The DOJ should critically reconsider the prior administration's Avanci BRL.

While the certainty of BRLs over time — as a general matter — is important for the program to be effective, the Avanci BRL should be an exception to this usual practice because it is so untethered from precedent, sound policy and the reality of events on the ground.

For these reasons, the DOJ should either withdraw the Avanci BRL or issue supplemental guidance to clarify some of these errors.

If the DOJ declines to act, it runs the risk that its sister agency, consistent with its recently released policy statement,[13] might exercise its authority under Section 5 of the Federal Trade Commission Act to combat abusive SEP licensing practices by Avanci and certain of its members.

Jay Jurata is a partner and the head of the antitrust and competition practice at Orrick Herrington & Sutcliffe LLP.

Emily Luken is a senior associate at the firm.

The opinions expressed are those of the author(s) and do not necessarily reflect the views of their employer, its clients, or Portfolio Media Inc., or any of its or their respective

affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.

[1] <https://www.justice.gov/atr/page/file/1298626/download>; <https://ipwatchdog.com/wp-content/uploads/2022/11/Letter-to-AAG-Kanter-re-SEPs-and-Patent-Pools-10.30.22-1.pdf>; <https://www.justice.gov/opa/speech/file/1044316/download>.

[2] <https://www.justice.gov/opa/speech/file/1044316/download>.

[3] Attempting to correct every aspect of the November 30 letter is beyond this piece's scope.

[4] *Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 876 (9th Cir. 2012) ("[S]tandards threaten to endow holders of standard-essential patents with disproportionate market power" because "once a standard has gained such widespread acceptance that compliance is effectively required to compete in a particular market, anyone holding a standard-essential patent could extract unreasonably high royalties from suppliers of standard-compliant products and services.").

[5] *Broadcom Corp. v. Qualcomm Inc.*, 501 F.3d 297, 314 (3d Cir. 2007).

[6] <https://static1.squarespace.com/static/60e5457fb89be21d705fa914/t/634d9bb669c56b29d6d58e7f/1666030518708/Letter+to+AAG+Kanter+regarding+Avanci+10.17.2022.pdf>.

[7] John "Jay" Jurata, Jr. & Emily N. Luken, *Glory Days: Do the Anticompetitive Risks of Standards-Essential Patent Pools Outweigh Their Procompetitive Benefits?* 58 SAN DIEGO L. REV. 417, 441-42 (2021).

[8] *Id.*

[9] Florian Mueller, *Dutch network operator KPN becomes 7th Avanci licensor to sue Ford Motor Company over 4G standard-essential patents*, FOSS PATENTS, May 17, 2022, <http://www.fosspatents.com/2022/05/dutch-network-operator-kpn-becomes-7th.html>.

[10] The lawsuits by Avanci's members did not implicate 5G patents that were the subject of the Avanci BRL, but the operative provisions concerning litigation reimbursement are the same in the 3G/4G agreements as the 5G agreement.

[11] See, e.g., Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991 (2007); Mark A. Lemley, *Ten Things to Do About Patent Holdup of Standards (And One Not To)*, 48 B.C. L. REV. 149 (2007); Joseph Farrell, John Hayes, Carl Shapiro, & Theresa Sullivan, *Standard Setting, Patents, and Hold-Up*, 74 ANTITRUST L. J. 603 (2007); Thomas F. Cotter, *Patent Holdup, Patent Remedies, and Antitrust Responses*, 34 J. CORP. L. 1151 (2009); Carl Shapiro, *Injunctions, Hold-Up, and Patent Royalties*, AM. L. & ECON. REV. (2010); Colleen v. Chien & Mark A. Lemley, *Patent Holdup, the ITC, and the Public Interest*, 98 CORNELL L. REV. 1 (2012); Dennis W. Carlton & Allan L. Shampine, *An Economic Interpretation of FRAND*, 9 J. COMP. L. & ECON., 531 (2013); Joseph Kattan & Chris Wood, *Standard-Essential Patents and the Problem of Hold-up*, in Nicholas Charbit and Elisa Ramundo, eds., *William E. Kovacic, An Antitrust Tribute – Liber Amicorum* (2014); A. Douglas Melamed & Carl Shapiro, *How Antitrust Law Can Make FRAND Commitments More Effective*, 127 YALE L. J. 2110 (2018); Thomas F. Cotter, Erik Hovenkamp, & Norman Siebrasse, *Demystifying Patent Holdup*, 76 WASH. & LEE L. REV. 1501 (2019); Carl Shapiro & Mark Lemley, *The Role of Antitrust in Preventing Patent Holdup*, 168 U. PA. L. REV. 2019

(2020); Brian J. Love, Yassine Lefoulli & Christian Helmers, Do Standard-Essential Patent Owners Behave Opportunistically? Evidence from U.S. District Court Dockets, SSRN Working Paper (2021).

[12] Supra note 7 at 440.

[13] https://www.ftc.gov/system/files/ftc_gov/pdf/P221202Section5PolicyStatement.pdf.