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U.S. FTC Requires FRAND Commitments as Part of Merger Settlement with Broad Implications

Gavin Bushell (Baker McKenzie, Belgium) · Friday, December 14th, 2012

My U.S. colleagues Lee van Voorhis and Brian Rafkin wrote an excellent client alert on the Bosch case and I asked them to prepare the following short summary for the Kluwer readership:

On November 26, 2012, the FTC and Robert Bosch GmbH entered into a Consent Agreement that resolved the FTC's inquiry into Bosch's $1 billion acquisition of SPX Services. As part of the Consent Agreement the FTC required that Bosch agree to license on FRAND terms certain SPX patents. This is the first case where the FTC alleged an antitrust violation where a patent owner sought injunctions against willing licensees of FRAND-encumbered standard-essential patents. Moreover, the FTC obtained a consent agreement, establishing what the agency considers to be internal precedent – which puts licensors on notice that, in proceedings before the FTC, injunctions violate a FRAND commitment.

The Consent Agreement requires Bosch to sell an overlapping business to a competitor and terminate, or otherwise not enforce, any exclusive agreements that SPX had entered into with distributors that prevented them from selling competitors' products in the relevant market.

So far, fairly "normal" for an FTC consent. However, the consent has a new twist. SPX took part in a standard setting organization called the SAE Interior Climate Control Committee ("SAE"), which was responsible for adopting standards governing the operation of ACRRR machines. To participate in SAE, SPX was required to disclose any relevant patents and agree that if any of those patents were adopted in the standard, SPX would license them on FRAND terms. According to the FTC, SPX submitted a letter to SAE doing this. Based on SPX's commitment, SAE adopted a standard that included several SPX patents. However, rather than licensing its patents to others on FRAND terms, SPX sued several competitors for patent infringement seeking injunctive relief. According to the FTC's complaint, SPX's seeking of injunctions against willing licensees of FRAND-encumbered standard-essential patents constituted unfair competition in violation of Section 5 of the FTC Act. Section 5 is broader than Section 1 or 2 of the Sherman Act, though its boundaries have never been clearly defined. To resolve the FTC's competitive concerns, the Consent Agreement requires Bosch to license SPX's patents on a royalty-free basis to all potential implementers of the standard, to send a letter of assurance to SAE that it will license the SPX patents on FRAND terms, and to not pursue injunctive relief against willing licensees of the SPX patents in the future.

This is the first case where the FTC has alleged an antitrust violation where an owner of FRAND-encumbered standard-essential patents seeks an injunction against implementers of the standard. This case has many implications, including:

• It establishes a broad "no injunction" policy. Companies are put on notice that the FTC will take the position that it violates Section 5 of the FTC Act to seek injunctions against willing licensees on FRAND-encumbered standard-essential patents. In other words, a commitment to license on FRAND terms is an implicit commitment to not seek injunctive relief.

• It establishes the FTC's view that, under Section 5 of the FTC Act, it is not necessary to show that a patent owner defrauded a SSO or otherwise acted in bad faith. Compare Bosch/SPX to the FTC's Rambus litigation, where the FTC alleged that Rambus extracted above-market royalty rates after misleading an SSO into incorporating its patents into a standard.

• It reinforces the FTC's broad investigation authority. The FTC learned about SPX's patent infringement suits during the course of its standard merger investigation process. But for the merger, the FTC likely would have remained ignorant of SPX's conduct.

• It shows that in certain circumstances, the FTC will use the merger review process, which has statutory timing and compliance requirements preventing transactions from closing for a significant amount of time, to leverage a stronger settlement than it may have been able to obtain in a stand-alone conduct investigation. Here, it seems likely that FTC used the merger review process to negotiate favorable settlement terms for non-merger specific conduct.

• It extends the agencies' focus on standard setting to non-information technology industries. Though standard-essential patents are an enforcement priority at both the FTC and Department of Justice's Antitrust Division ("DOJ"), enforcement activity to date largely has been concentrated in the information technology industry. This case makes it clear that the agencies are concerned about these issues in all industries.

• Unfortunately, it does not help to illuminate the ongoing question of what constitutes FRAND terms. There is little guidance from the agencies or courts as to what the bounds of FRAND are, which makes it difficult for patent owners and licensees to negotiate FRAND terms. The Bosch/SPX case does little to illuminate this murky area of the law.

• It potentially creates an enforcement gap between the FTC and DOJ. The FTC brought its standard-essential patent claim under Section 5 of the FTC Act, which has an "unfair methods of competition" standard. The DOJ cannot enforce this section, and instead relies on Section 2 of the Sherman Act, which prohibits monopolistic conduct. Historically the FTC has taken an expansive view of its Section 5 authority and has pursued claims more aggressively than the DOJ has pursued Sherman Act claims. Indeed, the FTC explicitly declined to allege a violation of Section 2 of the Sherman Act, explaining that SPX's actions did not rise to the level that would warrant the potential follow-on civil litigation that arises when an agency pursues a Sherman Act claim.

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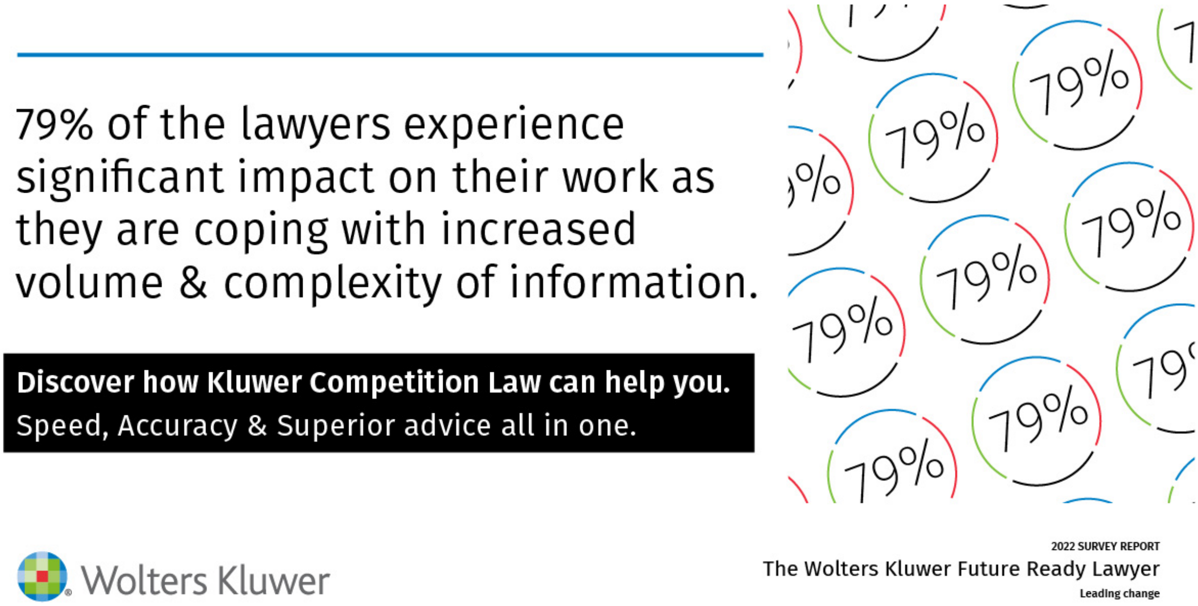

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