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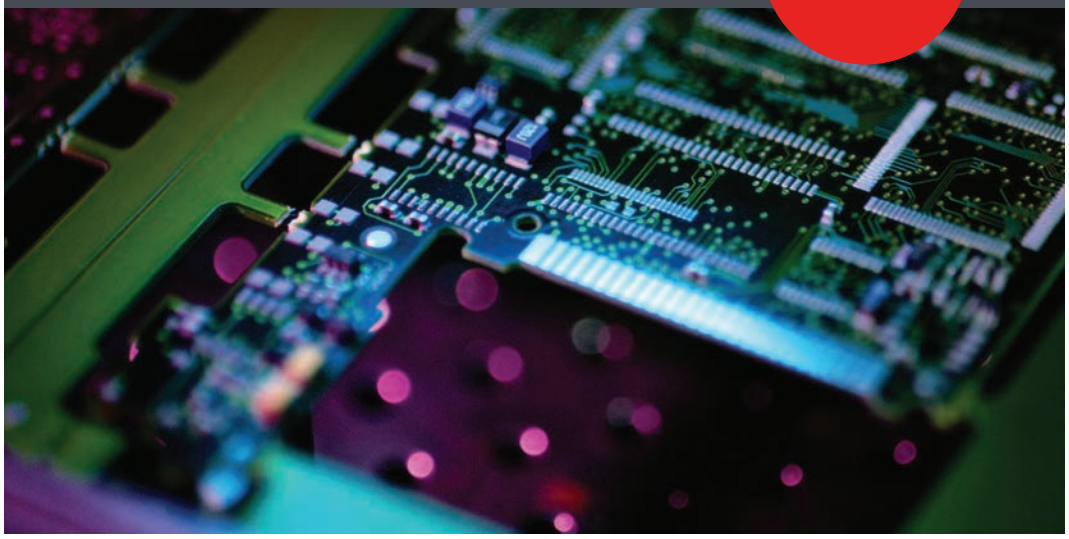

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# Licensing SEPs after *FTC v Qualcomm*

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Several owners of cellular standard-essential patents (SEPs) have developed a lucrative licensing model to monetise SEPs. But in May 2019 that licensing model may well have been upended when Judge Lucy Koh of the US District Court of the Northern District of California issued her decision in *Federal Trade Commission v Qualcomm Incorporated* (5:17-cv-0220).

In her decision, the judge held that Qualcomm's licensing model violated US competition law in several ways. First, she determined that Qualcomm had a competition law duty to exhaustively license its SEPs to competitors, and that a business model pursuant to which Qualcomm only licensed device-makers violated that duty. Second, she determined that charging royalties based on the price of a handset was unreasonable and contrary to US law. Third, she determined that Qualcomm's 'no licence, no chips' policy violated US competition law. The judge then enjoined Qualcomm from further engaging in these unlawful practices.

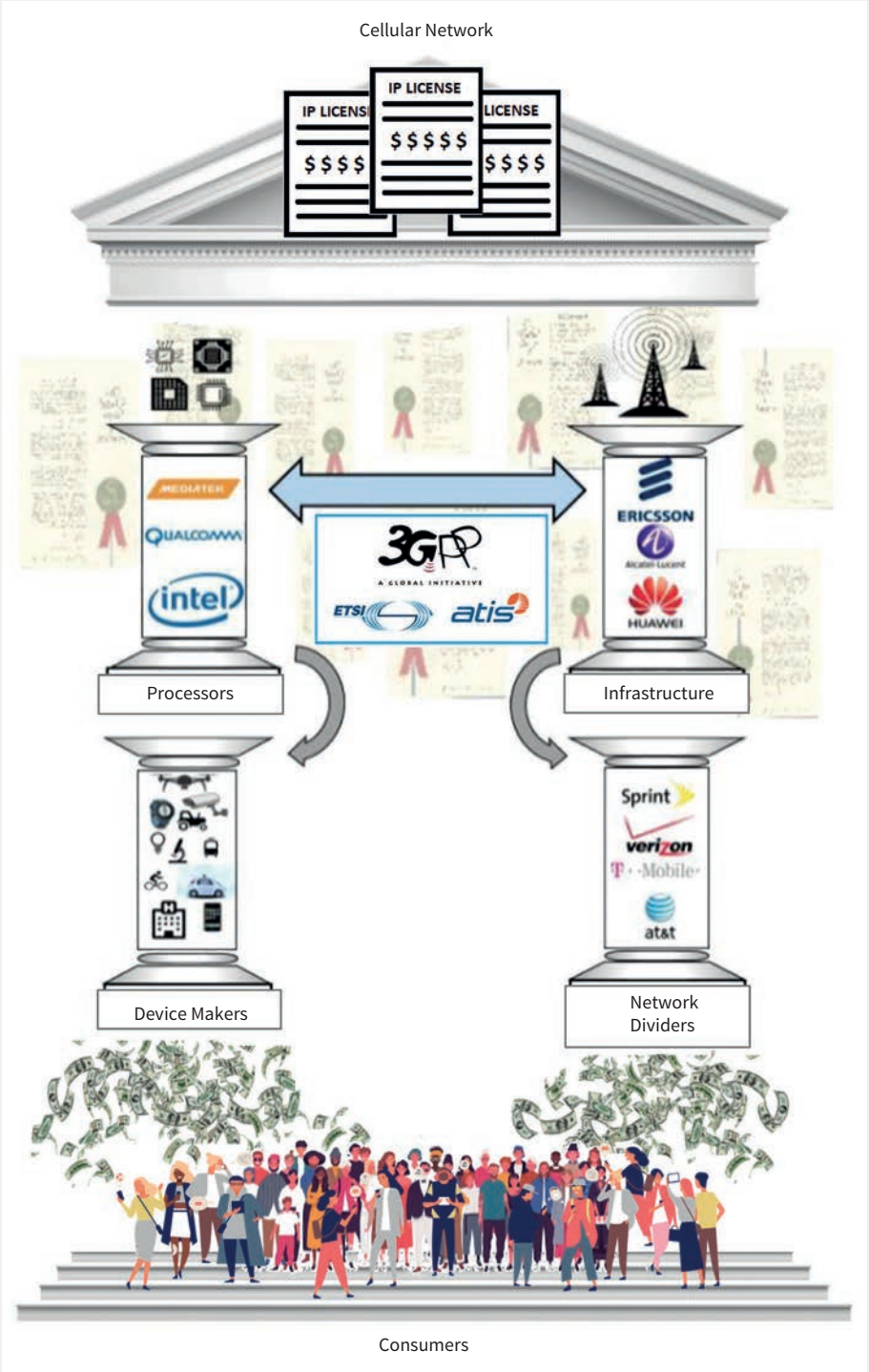
The judge's decision could significantly disrupt current SEP licensing practices. This chapter explores the practical implications of her decision and how that decision, if upheld, will likely affect current SEP business models. It also provides a background on the SEP licensing model used by Qualcomm, examines the contours of the 'freedom to contract' principle that SEP owners have used to justify their licensing models and discusses how the judge embraced a robust exception to that principle.

## SEP licensing

Today's cellular communication networks stem from a collaborative effort involving hundreds of companies. These companies include competitors such as Qualcomm, Ericsson, Nokia, Huawei, Apple, AT&T and Verizon. This collaboration has taken place within the standard setting organisations (SSOs) that comprise the Third Generation Partnership Project (3GPP). Within these SSOs, scores of technical committees meet several times a year to develop detailed specifications to define the mandatory elements of the 2G, 3G, 4G and 5G cellular networks.

Although standardisation can benefit consumers, it comes with significant costs. Alternative innovations are passed over in favour of the collaboratively chosen solutions. Consequently, any market for alternative innovations evaporates. Moreover, the standardisation process creates the potential for anti-competitive conduct. The companies that engage with the technical committees often file patent applications with specifications broad enough to cover aspects of the standards under collaborative development. The resulting patents contain claims that are intended to be necessarily practised when a company uses or makes standards-compliant technology and are thus considered essential. As a result, each SSO participant has an opportunity to obtain enormous economic leverage. The Ninth Circuit US Court of Appeals described it this way: "The development of standards… creates an opportunity for companies to engage in anti-competitive behavior. Most notably, once a standard becomes widely adopted, SEPs holders obtain substantial leverage over new product developers, who have little choice but to incorporate SEP technologies into their products." (*Microsoft Corp v Motorola Inc*, 795 F3d 1024, 1030-31 (9th Cir 2015).)

**FIGURE 1.** Participants – cellular networking market



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