
Non-Obvious News

The DOJ Antitrust Division’s Business Review Letter for Avanci’s 5G Connected Car Platform Provides Fresh Guidance on Joint Licensing of Standard-Essential Patents

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On July 28, 2020, the U.S. Department of Justice Antitrust Division (“DOJ”) issued a Business Review Letter (“BRL”) to Avanci LLC regarding its proposed platform for joint licensing of standard-essential patents (“SEPs”) for 5G telecommunications technologies for use in vehicles and, in the future, other Internet of Things (“IoT”) devices.²

The DOJ concluded that Avanci’s proposed 5G platform is unlikely to harm competition.³ Building upon DOJ business review letters for various patent pools over the last 25 years, the BRL reaffirms the procompetitive benefits of joint patent licensing, and underscores the safeguards needed to mitigate against potential anticompetitive concerns. It also clarifies the degree to which independent evaluations of essentiality are required for joint SEP licensing; concludes that Avanci’s provisions incentivizing pursuit of infringement claims by participating patent owners are not anticompetitive; and confirms that Avanci’s platform license with a field of use at the end-product level—rather than at the component level higher up the automotive supply chain—is not anticompetitive.

Background

When 5G wireless technology is deployed in the next generation of vehicles, connected cars with meaningful communication capabilities will soon be possible. That enhanced functionality will require implementation of 5G cellular standards previously relevant primarily for smartphone uses. Automobile OEM implementation will involve many thousands of SEPs owned by many different companies, creating the potential for high bilateral licensing transaction costs and infringement risk.

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² Press Release, Antitrust Div., U.S. Dep’t of Justice, *Justice Department Issues Business Review Letter To Avanci For Proposed Licensing Platform To Advance 5G Technology For Interconnected Automobiles* (July 28, 2020), <https://www.justice.gov/opa/pr/justice-department-issues-business-review-letter-avanci-proposed-licensing-platform-advance> [accessed September 8, 2020].

³ Letter from Makan Delrahim, Assistant Att’y Gen., Antitrust Div., U.S. Dep’t of Justice, to Mark H. Hamer, Partner, Baker & McKenzie, at 1-2 (July 28, 2020), <https://www.justice.gov/atr/page/file/1298626/download> [accessed September 8, 2020] [hereinafter “BRL Response”].

Avanci neither owns patents nor implements technologies.⁴ It offers a 5G licensing platform to serve as a “one-stop” solution for IoT device makers seeking to secure a single license for standard-essential cellular wireless technologies from multiple SEP holders in one transaction.⁵ The patents licensed would include any essential claims owned by the Avanci licensors that are relevant to the practice of 5G cellular standards.⁶

Analysis

Discussion of the Avanci 5G Platform’s Likely Procompetitive Benefits

The DOJ has long recognized that patent pools can “provide procompetitive benefits by integrating complementary technologies, reducing transaction costs, clearing blocking positions, and avoiding costly infringement litigation.”⁷ The letter highlights that the Avanci platform “may be particularly useful as the IoT develops” because “potentially thousands to tens of thousands of patents may be declared essential to manufacturing a product with 5G functionality.”⁸

In concluding that the platform “appears likely to create efficiencies that may increase consumer welfare,”⁹ the DOJ highlighted the following features in its antitrust evaluation:

- **The aggregation of complementary patents could reduce transaction costs, minimize licensing disputes, and facilitate faster implementation.** By acting as a centralized agent for licensing a large percentage of 5G SEPs, the BRL notes that Avanci can facilitate licensing and help integrate emerging 5G technologies into vehicles faster, with less infringement risk, and at reduced transaction costs. Recognizing that cellular SEP holders are “fairly new” to licensing in the automotive space, the DOJ concluded that the Avanci platform has the potential to reduce costs and facilitate negotiations in a “fragmented and opaque” automotive industry.¹⁰ The DOJ also noted that Avanci’s scale could help minimize other kinds of transaction costs like those related to monitoring and compliance.¹¹

- **The Avanci platform could help promote patent owner participation and reduce hold out.** The letter notes that the efficiencies that can be achieved through joint licensing are contingent in part on the extent to which licensors are willing to participate in the platform.¹² The DOJ discusses how the following features are likely to promote broad platform participation by patent owners:

⁴ Letter from Mark H. Hamer, Partner, Baker & McKenzie, to Makan Delrahim, Assistant Att’y Gen., Antitrust Div., U.S. Dep’t of Justice, at 5 (Nov. 21, 2019), <https://www.justice.gov/atr/page/file/1298631/download> [accessed September 8, 2020] [hereinafter “BRL Request”].

⁵ *Id.*

⁶ *Id.* at 8.

⁷ BRL Response at 8.

⁸ *Id.*

⁹ *Id.* at 9.

¹⁰ *Id.* at 9-10.

¹¹ *Id.*

¹² *Id.*

○ *Avanci's Balanced Royalty Allocation Approach.* The letter highlights four point categories that Avanci would use in calculating shares for participating licensors: (i) the number of evaluated essential patents the licensor possesses, (ii) other licensing revenues, which are based on a given licensor's three-year average annual licensing, (iii) standard contributions, which would be determined through an Avanci-commissioned independent third-party study of technical contributions to relevant 3GPP working groups, and (iv) licensing support, which would be awarded to licensors that are willing to enforce their essential patents for the benefit of the platform.¹³ Each of these point categories would be capped, with a more limited points cap for licensing support.¹⁴

○ *Quantitative and qualitative factors for calculating royalties:* The letter notes that the point categories Avanci would use in determining royalty distributions "could encourage both large and small licensors to join the platform."¹⁵ For example, the use of a points cap for essential patents could encourage smaller licensors to join, while the points allocations for standards contributions and prior licensing revenues could make the platform more attractive to established licensors with larger 5G portfolios.¹⁶

○ *Licensing support provisions:* The letter recognizes that the provisions relating to licensing support could help discourage hold out by licensees and help licensors bear the costs of enforcement efforts that encourage infringers to take a platform license.¹⁷ At the same time, by limiting the reward of royalty points, the support provisions tend to protect against potential over-enforcement.¹⁸

○ *Reimbursement of litigation costs:* The letter acknowledges that reimbursement of litigation costs could encourage licensors to take legal action against manufacturers that are unwilling to take an Avanci platform license, which could cause fewer firms to continue infringing on licensed patents.¹⁹ The letter also concludes that the platform is unlikely to cause licensors to assert essential patents when they otherwise would not have done so "given the large number of SEPs that may be licensed through the proposed Platform, the safeguards in place to check essentiality, and the correspondingly high probability of infringement (even if some Licensed Patents are later determined to be invalid)."²⁰

¹³ *Id.*

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Id.* at 11.

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ *Id.* at 12.

Discussion of Avanci's Safeguards to Minimize Potential Anticompetitive Effects

While noting that patent pools can potentially harm competition, the letter highlights the Avanci platform's safeguards that would reduce the risk of competitive harm:

- **The use of a definitional license helps ensure substitute patents would be excluded from the platform.** Avanci would be limited to licensing patents that are “by definition” technically essential to the practice of relevant cellular standards.²¹ The platform would license only essential patent claims that are “necessary on technical grounds” to comply with cellular standards and excludes non-essential patents from being licensed through the platform.²² This “definition is consistent with, and in some cases, a more rigorous standard than those used in other pools that the DOJ has found to adequately prevent the inclusion of substitute patents.”²³

- **Avanci's essentiality review process strikes the right balance.** The Avanci platform would be open to any licensor that owns at least one SEP that has been evaluated by an independent expert.²⁴ In turn, Avanci would implement procedures, including the assignment of independent patent examiners, to evaluate the patent portfolios submitted by participants for essentiality review.²⁵ While Avanci would not require licensors to have “all” of their declared SEPs independently reviewed for essentiality, the letter notes the DOJ's appreciation for “Avanci's position that such an extensive evaluation may be ‘commercially impractical’ due to the number of patents that may be licensed through the Platform and this requirement could inhibit the proposed Platform's formation.”²⁶ Further, the letter notes that independent evaluation is not the only safeguard to prevent licensing of non-essential patents: other safeguards include the Avanci platform's use of a definitional license and the ability of licensees to challenge licensed patents outside the platform.²⁷

- **Participants would be permitted to negotiate licenses independently outside the platform.** The licensor would also be required to resolve the effect of any overlapping license to prevent licensors from collecting royalties from the same licensee twice.²⁸ The proposal allows for independent bilateral licensing outside the platform, and requires licensors to identify overlapping licenses to prevent “double dipping” (collecting royalties through the platform for technologies that are also directly licensed).²⁹ In doing so, the proposal lessens potential competitive concerns by preserving licensors' ability to compete with the pool license.

- **Avanci's exclusivity provision is not anticompetitive.** The DOJ discusses a provision of the Avanci platform agreement that prohibits licensors from joining another joint licensing program that also licenses cellular SEPs for 5G connected vehicles.³⁰ The letter concludes

²¹ *Id.* at 15.

²² *Id.* at 13.

²³ *Id.* at 13-14.

²⁴ *Id.* at 14.

²⁵ *Id.*

²⁶ *Id.* at 15.

²⁷ *Id.*

²⁸ *Id.* at 16.

²⁹ *Id.*

³⁰ *Id.* at 17.

that this provision is unlikely to harm competition for at least three reasons: (i) the provision allows for direct competition from alternative joint licensing arrangements that existed prior to Avanci and from independent licensors, (ii) the provision allows for competition from joint licensing arrangements in different or closely related fields of use (such as components), and (iii) the provision may provide benefits to licensees by helping to make the platform a more effective “one stop shop.”³¹

- **The license would be made available on a non-discriminatory basis to all parties within the proposed field of use (i.e., the connected vehicle at the end-device level).** While the Avanci platform’s field of use is for manufacture of connected end-use vehicles, rather than components in the supply chain, the letter states that limiting the relevant field of use to the end-use device “does not necessarily make the Platform anticompetitive.”³² The letter explains that (i) the efficiencies associated with Avanci’s proposed field of use could be considerable by allowing patent owners to more efficiently capture the value of their innovations, and (ii) the US Antitrust Agencies’ *Antitrust Guidelines for the Licensing of Intellectual Property* make clear that field-of-use restrictions can be procompetitive by increasing incentives for patent holders to license their technologies.³³ The letter references the DOJ’s prior business reviews in finding that field of use limitations in the joint licensing context are “not uncommon.”³⁴

- **Avanci would protect participants’ competitively sensitive information.** The letter notes that the platform takes measures to protect against sharing of competitively sensitive, confidential business information, such as limitations on access and requiring Avanci employees to sign non-disclosure agreements.³⁵ The letter also concludes that because Avanci is an independent licensing administrator “with no patents of its own” and “does not participate in the automotive industry,” “it has little incentive to coordinate on price or output downstream.”³⁶

Conclusion

The Avanci BRL marks a key development in the DOJ’s ongoing efforts to strike an appropriate balance between intellectual property rights and antitrust law. It provides fresh guidance on the antitrust considerations when pursuing joint patent licensing, reaffirming and expanding upon past business review letters for joint licensing platforms. Finally, it confirms that under U.S. antitrust law and under the circumstances presented, Avanci’s essentiality evaluation approach, its incentives for patent owner actions to address infringement, and its end-product field of use approach are not likely to harm competition.

³¹ *Id.* at 17-18.

³² *Id.* at 18.

³³ *Id.* at 18-19.

³⁴ *Id.* at 19.

³⁵ *Id.* at 21.

³⁶ *Id.*