



# Standardization Skullduggery Never Ends: Apple v. Motorola

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.....Apple has sued Motorola Mobility in California federal court to block Motorola's alleged standardization skullduggery regarding 3G Universal Mobile Telecommunications System (UMTS) technology. Apple filed the suit February 10, 2012, in the US district court in San Diego, seeking relief against Motorola's use of patent litigation in Germany under Motorola's '898 EU patent to try to shut down the sale of Apple's iPhone 4S cell phones.

Apple's suit is based on Motorola's assertions to the European Telecommunications Standards Institute (ETSI) while Motorola participated with others in creating ETSI's General Packet Radio Service (GPRS) cell phone standard. The key assertions are that the technology of Motorola's patent is essential to practicing ETSI's GPRS standard, and that Motorola promised ETSI to license the patent to users of the standard on fair, reasonable, and nondiscriminatory (FRAND) terms.

## Background

The standardization skullduggery that Apple alleges is that Motorola "has pursued an aggressive international campaign of litigation that flies in the face of its promise to license its cellular standards-essential patents on FRAND terms." (Apple's complaint against Motorola is available at [http://newsandinsight.thomsonreuters.com/uploadedFiles/Reuters\\_Content/2012/02\\_-\\_February/applevmotorolacomplaint.pdf](http://newsandinsight.thomsonreuters.com/uploadedFiles/Reuters_Content/2012/02_-_February/applevmotorolacomplaint.pdf).) In April

2011, Motorola sued Apple in Germany, charging Apple with infringement of Motorola's EU patent, based on Apple's use of Qualcomm semiconductor chip components (MDM6610 baseband processors) in Apple's iPhone 4S.

Apple was buying MDM6610 baseband processor chips from Qualcomm, which had a FRAND license. Normally, a third party has no rights under a contract between two other parties. But there is an exception when the third party is a "third-party beneficiary" under the contract. (A third-party beneficiary is one in contemplation of whose benefit the contracting parties entered into their contract. For example, if you buy your son a membership in a gym, he becomes a third-party beneficiary of your contract with the gym.) Apple argues that it was a third-party beneficiary of the contractual license between Motorola and Qualcomm, because of Motorola's FRAND commitment to ETSI. Apple is saying that when a component maker takes a license under a standard, a systems manufacturer that buys the component to make equipment compliant with the standard is a third-party beneficiary of the license. In addition, Apple argues, Qualcomm's sales of the licensed chips "exhausted" Motorola's patent rights. (See the Nov./Dec. 2008 Micro Law column, "An Update on 'Exhaustion'—Supreme Court Decides Quanta Case.")

But Motorola cancelled, or purported to cancel, Qualcomm's FRAND license,

which according to Motorola wiped out Apple's rights deriving from the license to Qualcomm. Apple claims that Qualcomm already paid Motorola the license fees for the chips Qualcomm sold to Apple, making the purported cancellation too late, and that anyway Motorola had no right to cancel the FRAND license. That is, once a patented technology is built into a standard as a result of a FRAND commitment, the patent holder has no right to cancel the license. Apple says that "parties who commit to license their standards-essential patents on FRAND terms have obligations they cannot ignore."

The foregoing account is based on Apple's San Diego complaint. Motorola hasn't yet filed its answer and has at least until the middle of March to do so. Presumably, it will have a wholly different spin on the case than Apple does.

Motorola's underlying position is that it is entitled to require Apple to take a license directly from Motorola, instead of relying on a license between Motorola and Qualcomm. What the traffic will bear in an equipment license, where the royalty base is the price of the equipment, is much greater than it is for a component such as the processor chip. Motorola's proposed terms, it is said, are intended to extract more than a billion dollars per year, perpetually, for the use of the patented technology (Motorola demands from Apple—and others such as Microsoft—2.25 percent

of sales of all products implementing the 3G/UMTS wireless telecommunications standard). Motorola's position is similar to the one that LG Electronics unsuccessfully took in its case against Quanta Computer, discussed in the Nov./Dec. 2008 Micro Law column. Briefly, Quanta bought chips from Intel, which had a license from LG. The Supreme Court held that the license gave Quanta the right under the exhaustion doctrine to use the chips without paying a further royalty. Under the exhaustion doctrine, the first authorized sale of a patented product exhausts the patent and liberates the sold product from the patent monopoly.

Motorola denies that Apple is a third-party beneficiary of the Motorola-Qualcomm license. It also says that it had the right to terminate the license. Apparently, the FRAND licenses involved here provide that the patent holder and licensor making a FRAND commitment won't sue FRAND licensees unless they sue the licensor. Here, Motorola sued Apple in Wisconsin for infringing the US '336 patent (which covers the same technology as the EU '898 patent), and then Apple countersued Motorola (apparently under an unrelated patent). Motorola says that Apple's countersuit gave Motorola the right to terminate ("defensive termination"), but Apple maintains that no right to terminate arises when the party who wants to terminate struck the first blow—here, Motorola's patent suit in Wisconsin. Qualcomm's position is that regardless of whether its customer Apple sued Motorola, Qualcomm didn't sue Motorola, and therefore Motorola has no right to make a defensive termination of Qualcomm.

## The EU take

Meanwhile, the European Union's competition enforcement authority is making threatening noises against standardization skullduggery patent initiatives. EU Competition Commissioner Joaquin Almunia said, on the same day that Apple sued Motorola in San Diego,

that he will use EU antitrust powers to prevent standards-essential patents from being used unfairly to control markets. "I am determined to use antitrust enforcement to prevent the misuse of patent rights to the detriment of a vigorous and accessible market," Almunia said. "I have initiated investigations on this issue in several sectors." He added, "I am notably thinking of the surge in the strategic use of patents that confer market power to their holders."<sup>1</sup> He warned companies owning standards-essential patents that he would ensure that they were obliged to license them on FRAND terms. In late January, the EU competition authority began an investigation of Samsung's use of 3G standards-essential patents against Apple as a possible abuse of dominant power.

Almunia explained:

*Standards are the best tool to promote interoperability of devices or to define safety or quality benchmarks. In the communications technologies, standards are key for a universal interconnection and seamless communication.*

*Once a standard is adopted, it becomes the norm and the underlying patents are indispensable. Owners of such standard-essential patents are conferred a power in the market that they cannot be allowed to misuse. We must ensure that, once they hold standard essential patents, companies give effective access on fair, reasonable and nondiscriminatory terms.*

*This is crucial if we want industries and businesses relying on such patents to develop freely to their utmost potential.<sup>2</sup>*

On February 13, both the EU and the US Department of Justice's Antitrust Division announced that they wouldn't oppose Google's US\$12.5 billion acquisition of Motorola along with its arsenal of 17,000 patents. Both agencies

cautioned, however, that they would monitor the use of those patents, particularly the standards-essential patents. The Antitrust Division statement said:

*In light of the importance of this industry to consumers and the complex issues raised by the intersection of the intellectual property rights and antitrust law at issue here, as well as uncertainty as to the exercise of the acquired rights, the Division continues to monitor the use of standards-essential patents in the wireless device industry, particularly in the smart phone and computer tablet markets. The Division will not hesitate to take enforcement action to stop any anticompetitive use of standards-essential patents.<sup>3</sup>*

The EU comment was even more pointed: "Today's decision does not mean that the merger clearance blesses all actions by Motorola in the past or all future action by Google with regard to the use of these standard-essential patents."<sup>4</sup>

## Discussion

Based only on Apple's version of the facts, this appears a blatant case of standardization skullduggery. First, it is generally accepted that a components manufacturer that is a FRAND licensee has the right to sell its components to anyone it wants, the customer enjoys the right to make and sell standard-compliant products to anyone it wants, and the customer gets the benefits of the FRAND license. Possibly, however, if the customer is suing the FRAND licensor, the FRAND license might not extend to the customer—that is unclear. Also, possibly, when the customer is suing in retaliation against a first blow struck by the FRAND licensor, the licensor might not have a right to sue the customer—this too is murky. (The whole murky issue of defensive termination is too complicated to address in

detail here. It could well be that the benefit to a technology owner of having its technology embodied in a standard is so great that no need exists to allow defensive termination.)

Second, the FRAND licensor ordinarily has no right (or power) to withdraw the FRAND license from users of the standard. The standard embodies the FRAND licensor's technology on the basis of the FRAND commitment. Once the standard is promulgated and others act in reliance on the FRAND commitment, the FRAND obligation is fixed in concrete.

But is there a legitimate problem when some FRAND licensees are components manufacturers and others are systems manufacturers? Arguably, yes. Perhaps the technology has different values and therefore different FRAND royalty rates are appropriate at different production levels. Assume, for argument's sake, that the licensed technology gives the principal value to the system (this is unlikely). In that case, is it fair and reasonable to the patent holder to have to limit its royalty for the use of the invention to what the traffic will bear for a component manufacturer? Perhaps not. But it is even more unfair and unreasonable (non-FRAND) for the patent holder to try to change the rules of the game after the technology is embodied into the standard. In a case where the licensed technology is only a small element of the whole system, the unfairness is even greater.

## Notice and default rules

If the patent holder wants to preserve the right to charge different royalties in different markets or production levels, at the very least it should disclose that to the standard-setting group before it makes the decision to adopt the technology. If the IEEE, for example, doesn't like that approach, it can use a different technology—or if there is none, it can decide whether to abandon the standardization project or else knowingly accept the burden.

In this case, Motorola didn't give advance notice of this plan. In fact, the plan probably never even occurred to Motorola until the company was reorganized (the split-up of Motorola last year) and the patents fell into the custody of a different set of MBAs.

Organizations such as the IEEE should consider the problems raised by current imperialistic licensing programs and build appropriate safeguards into their standards rules to deal with them. At the very least, advance disclosure to the standardization body of intentions to do something unusual, such as requiring components purchasers to take a separate license to incorporate licensed components into equipment, should be required, and a default set of terms and conditions should be established that will apply unless the patent holder gives the standardization body advance notice of something else.

IEEE does require a letter of assurance from patent holders whose patented technology is incorporated into a standard, and the letter assures (in general terms) that the concept of FRAND will be followed. But the letter doesn't address the specific issue involved in the Motorola–Apple controversy: whether a FRAND license to a components manufacturer carries over to an equipment manufacturer incorporating the component into equipment (as I indicated earlier, the Supreme Court held in *Quanta v. LG Electronics* that this exhaustion rule is the default rule). Moreover, the concept of FRAND isn't defined that well. Because it is impossible to foresee in detail all of the skullduggery that resourceful MBAs and patent lawyers can think up, the rules concerning standardization should have default terms that cover such things as whether licensed components shall be permitted to be built into systems without further royalties.

However, rather than trying to draw up a list of specific licensing prohibitions, it might be better to spell out what the

standardization body wants to accomplish regarding patents (perhaps, to permit duly licensed manufacturers to make and sell components and systems for practicing the standard so that any duly licensed product is free from the patents); and then say that patent holders shall impose no terms or conditions that hinder, or act as an obstacle to the accomplishment of those goals.

Alternatively, the rules might say that no hindering/obstacle terms or conditions may be imposed without specific advance notice of them to IEEE (or the applicable other organization) before the patented technology is incorporated into the standard. (The Quanta case doesn't absolutely outlaw licensing programs like that which Motorola now seeks to establish.) Then IEEE or the other organization would be free to accept use of the patented technology with the burdensome conditions or else go and find other technology to use, or abandon the particular standardization effort.

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