Published on *The National Law Review* https://natlawreview.com

Foreign Trade Antitrust Improvements Act Defeats Claim Against Holder Of Patent Incorporated Into Industry Standard

Article By:

Thomas D. Nevins

Plaintiff alleged that defendants, which were affiliates of each other, held patents that were essential for plaintiff to manufacture and market USB 3.0 connectors that complied with a standard adopted by the industry for such connectors. Defendants assertedly refused to license those patents to plaintiff for certain connectors despite being obligated to do so. ***Lotes Co., Ltd. v. Hon Hai Precision Industry Co. Ltd.***, No. 12 Civ. 7465 (SAS) (S.D.N.Y. May 14, 2013) ("Slip Op."). The Court dismissed the claim pursuant to the Foreign Trade Antitrust Improvements Act ("FTAIA"), finding that plaintiff had failed to allege a direct, foreseeable effect on domestic U.S. commerce. The Court dismissed the case for lack of subject matter jurisdiction under Rule 12(b)(1), rather than for failure to state a claim under Rule 12(b)(6), because it felt bound by Second Circuit precedent to do so. Slip Op. at 18-22.

The patents at issue were part of an industry "standard," which is "basically a common set of technological standards to be used industry-wide with regard to a particular technology." Slip Op. at 2. A private Standard Setting Organization ("SSO") set the standard at issue. As was done here, SSOs typically secure agreements from patent holders contributing technology to the standard that they will license that technology on "reasonable and non-discriminatory ('RAND') terms." *Id*. at 5.

Defendants signed the SSO agreements as a "Contributor" of intellectual property, and Plaintiff signed them as an "Adoptor" of the SSO's standard. Defendants nonetheless refused to license their subject patents to plaintiff for three of plaintiff's fourteen USB 3.0 connector products, and initiated patent infringement actions against plaintiff in China concerning those three products.

Both plaintiff and defendants were Chinese corporations that made no sales in the United States. They sold to manufacturers outside of the U.S. that incorporated USB connectors into components that they in turn sold to manufacturers of notebooks, desktop computers and servers. Plaintiff alleged that "[d]efendants' anticompetitive behavior," the bringing of the patent infringement suits, raised prices and excluded competition in the USB 3.0 market in the United States, enabling defendant to the "become a monopoly" in violation of Sections 1 and 2 of the Sherman Act. Slip Op. at 9.

The FTAIA limits the reach of the Sherman Act outside of the United States. The court's focus here was on the requirement that the "conduct in issue . . . sufficiently affects American commerce, i.e., it has a 'direct, substantial, and reasonably foreseeable effect' on American domestic, import, or

(certain) export commerce . . . .” *Lotes Co.* at 19, quoting *F. Hoffman LaRoche Ltd. v. Empagran S.A.*, 542 U.S. 155, 162 (2004) (citation omitted).

The court found that there had been no such effects on domestic commerce here. There may have been “ripple effects” in the U.S., but “those effects are simply too attenuated to establish the proximate causation required by the FTAIA.” Slip Op. at 24. “Given the multitude of ‘intervening developments that simultaneously affect” the marketplace, the asserted anticompetitive effect “could very well have resulted from factors wholly unrelated to the alleged“ violation. *Lotes Co.*, Slip Op. at 25; id. at 27 (FTAIA not met by “secondary and indirect effects that are also the by-product of numerous factors relevant to market conditions.” [Citation omitted]).

The court noted also that plaintiff had not alleged a price fixing conspiracy; that the USB 3.0 products were just one in a host of minor products that made up the finished products; and that plaintiff did not allege that defendants had a controlling share of the relevant market. *Lotes Co.*, Slip Op. at 30. In addition, defendants had licensed eleven of plaintiff’s fourteen USB connector products. Overall, it was impossible to quantify any alleged effect on the price of domestic computer products. *Id.* at 31.

Subject matter jurisdiction, therefore, was lacking.

National Law Review, Volume III, Number 183