

February 4, 2022

Comments on Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments (issued Dec. 6, 2021)

Save Our Standards is a broad-based coalition of innovators, small businesses, associations, academics, and consumer groups dedicated to reinforcing the fair, reasonable and non-discriminatory (FRAND) licensing commitment and its important role in enabling competition and innovation that directly benefits consumers. We support policies that allow all innovators to thrive through pro-competitive practices that reinforce FRAND licensing terms for standard-essential patents (SEPs).¹

We write to support the Department of Justice (DOJ), U.S. Patent and Trademark Office (USPTO), and National Institute of Standards (NIST) [Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments](#) dated December 6, 2021 (the Draft Statement) and offer some constructive proposals for further refinement.

Injunctions and exclusion orders on FRAND-committed SEPs pose an immense risk of harm to consumers and to companies that manufacture and innovate in the United States. Foreign companies are increasingly large SEP asserters who seek to maximize SEP royalties to make up for decreasing sales due to their own product failures or U.S. government sanctions. For example, the highest percentage of patent families disclosed from 1990-2019 to ETSI were Chinese firms (27.3%), followed by U.S. firms (21.5%), South Korean firms (19.3%), and European firms (19.2%).² Indeed, foreign firms have filed lawsuits in the U.S.

¹ Save Our Standards, <https://www.saveourstandards.com>.

² Rudi Bekkers, Emilio Raiteri, Arianna Martinelli & Elena Mas Tur, "Landscape Study of Potentially Essential Patents disclosed to ETSI" at 30 (2020), <https://ec.europa.eu/jrc/en/publication/landscape-study-potentially-essential-patents-disclosed-etsi>; IPLytics, "Fact finding study on patents declared to the 5G standard" at 12 (Jan. 2020), https://www.iptytics.com/wp-content/uploads/2020/02/5G-patent-study_TU-Berlin_Iptytics-2020.pdf.

against U.S. firms on the basis of FRAND-committed SEPs, expressly seeking exclusionary relief or leaving open the option to seek that relief.³ Strong-arm licensing practices for FRAND-committed SEPs also have harmed diversity and resilience in the supply chain, in particular for integrated chips, where numerous chip suppliers have been pushed off the market or prevented from entering.⁴ These harms were exacerbated by the policies of the last administration, which prioritized the interests of a small number of mostly foreign SEP asserters over the much larger community of U.S. companies (both by revenues and number of firms) who both innovate and produce products that use technical standards.

The Draft Statement is a welcome return to a balanced policy concerning the availability of exclusionary remedies in licensing disputes involving policy for FRAND-committed SEPs. The Draft Statement should replace the December 19, 2019, statement of the prior Administration (the 2019 Statement), which discouraged job-creating investment and undermined innovation by seeking to tilt the balance in the framework governing standards, competition law, and patent law towards permitting abuse by SEP licensors.⁵

³ Original Complaint for Patent Infringement at 30, *Huawei Techs. Co. Ltd. v. T-Mobile US, Inc.*, No. 2-16-cv-00052 (E.D. Tex. Jan. 15, 2015) (requesting injunction on SEPs); *In the matter of Certain Mobile Telephones, Tablet Computers with Cellular Connectivity, and Smart Watches with Cellular Connectivity, Components Thereof, and Products Containing Same*, Complaint no. 3595 (filed Jan. 18, 2022) (seeking exclusion order): Complaint at 16, *Ericsson, Inc. et al v. Apple Inc.*, No. 6:22-cv-00060-ADA (W.D. Tex. Jan. 17, 2022) (seeking “a permanent injunction against all Apple products found to infringe the Asserted Patent.”); Complaint at 68, *Huawei Technologies Co. Ltd. v. Verizon Communications, Inc. et al*, No. 2:20-cv-00030-JRG (E.D. Tex Feb. 5, 2020) (seeking “any and all other relief as the Court may deem appropriate and just under the circumstances); Complaint at 172, *Huawei Technologies Co. Ltd. v. Verizon Communications, Inc. et al*, No. 6:20-cv-00090-ADA (W.D. Tex Feb. 5, 2020) (seeking “such other relief, including other monetary and equitable relief, as this Court deems just and proper.”).

⁴ See *FTC v. Qualcomm* Findings of Fact and Conclusions of Law at 114-122 (N.D. Cal. May 21, 2019) (findings of fact), *judgment reversed by Qualcomm, Inc. v. FTC*, 969 F.3d 974 (9th Cir. 2020) (reversing legal conclusions but not findings of fact).

⁵ Compare Letter from Makan Delrahim, Ass’t Att’y Gen., U.S. Dep’t of Just. Antitrust Div., to IEEE at 5-6 (Sept. 10, 2020) (citing the 2019 statement as a policy position “declining to infer diminished rights for essential patent holders as part of a FRAND commitment” that “flow[s] from the [so-called] consensus view in the United States that seeking an injunction is an ‘exclusive right’ conferred by the Constitution.”), <https://www.justice.gov/atr/page/file/1315291/download> with Jeffery Wilder, Economics Director of Enforcement, U.S. Dep’t of Justice, *Leveling the Playing Field in the Standards Ecosystem* at 9-10 (Sept. 24, 2021) (explaining that “SEP holders forgo the ability to exercise any market power gained from standardization”, that “patents confer a limited right to exclude” and that “SEP holders often agree to share their technologies in order to be included in a standard and ultimately to benefit from its widespread adoption”) [hereinafter Wilder Speech], <https://www.justice.gov/opa/speech/file/1437421/download>.

1. The Draft Statement Generally Strikes an Appropriate Balance between the Interests of SEP Asserters and those of Innovators.

As the DOJ and USPTO have long ago recognized, “[i]ndustry standards are widely acknowledged to be one of the engines driving the modern economy.”⁶ But the promise of standardization cannot be fully realized if SEP holders, who voluntarily committed to broadly license their patents as a condition of having their technologies potentially included in the standard, are able to threaten exclusion to increase their negotiating leverage to the detriment of standards implementers and ultimately to customers. The Draft Statement, by contrast, protects future innovation by providing an approach to SEPs that strives to balance patent holders’ interests with the interests of the broad range of U.S. industries that use standards.

Indeed, the Draft Statement balances the interests of three important participants in the standards ecosystem. First, it allows SEP licensors to receive reasonable compensation based on the value of their standard-essential patents before inclusion in the standard. Second, it enables potential licensees to create standards-based products and services in a wide array of industries—including automotive, smart energy, smart homes, e-health, manufacturing, asset tracking, agriculture, and communications—without being forced to choose between paying unreasonable royalties or being excluded from a market. And third, it ensures consumers can access innovative and higher quality products at lower prices. As a result, the Draft Statement will help innovative companies on both sides of SEP licensing negotiations create more jobs through economic growth.

To begin, the Draft Statement encourages SEP licensors and potential licensees to consider the Agencies’ high-level, non-exhaustive guidance during negotiations, but appropriately does not require its use. (Draft at 5). After all, as the Agencies recognize, “good-faith negotiation can be accomplished in more than one way.” (Draft at 5 n.7).

Then the Agencies turn to exclusionary remedies for infringement of a valid and enforceable SEP. The Draft Statement appropriately balances the need for potential licensees to use a standard with the benefits SEP licensors receive from an expanded SEP license market that a successful standard creates. The Draft Statement acknowledges that a SEP holder’s ability to obtain exclusionary relief is generally limited by voluntary FRAND commitments, stating that “[a]s a general matter, consistent with judicially articulated considerations, monetary remedies will usually be adequate to fully compensate a SEP

⁶ U.S. Dep’t of Justice & Fed. Trade Comm’n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* at 7 (Apr. 2007), <https://www.ftc.gov/sites/default/files/documents/reports/antitrust-enforcement-and-intellectual-property-rights-promoting-innovation-and-competition-report.s.department-justice-and-federal-trade-commission/p040101promotinginnovationandcompetitionrpt0704.pdf>

holder for infringement.” (Draft at 8). The Draft Statement further recognizes that the U.S. International Trade Commission (ITC) must take public interest considerations into account before issuing an exclusion order. (Draft at 7 n.15). These factors include the impact on competitive conditions in the U.S. economy and on U.S. consumers.⁷

In a similar vein, the Draft Statement clearly explains that injunctive relief under *eBay Inc. v. MercExchange, LLC* is, and should be, rare for FRAND-committed patents, 547 U.S. 388 (2006). As the Draft Statement acknowledges, “...in applying *eBay*, the Federal Circuit has observed that ‘[a] patentee subject to FRAND commitments may have difficulty establishing irreparable harm’ when, inter alia, the patent holder has agreed to widely license.” (Draft at 8). Monetary damages will typically be adequate “to redress the infringement, which also counsels against an injunction.” (Draft at 8-9). And courts must further consider the public’s interest in “encouraging participation in standard-setting organizations but also in ensuring that SEPs are not overvalued.” (Draft at 9). Thus, the Draft Statement rightly concludes that “[w]here a SEP holder has made a voluntary F/RAND commitment, the *eBay* factors, including the irreparable harm analysis, balance of harms, and the public interest generally militate against an injunction.” (Draft at 9).

The Agencies also recognize that one of the few situations that “an injunction may be justified” in is when a potential licensee “refuses to pay what has been determined by a court or another neutral decision maker to be a F/RAND royalty.” (Draft at 9). But such a scenario would be unusual. The Agencies correctly recognize that, as a general principle, a potential licensee that “agrees to be bound by an adjudicated rate determined by a neutral decision maker” should not face the prospect of an injunction or exclusion order. (Draft at 9). Indeed, the Draft Statement recognizes that reasonable positions, such as “reserv[ing] the right to challenge the validity, enforceability, or essentiality of the standards-essential patent in the context of an arbitration or F/RAND determination” is not an indication of refusing to pay or otherwise support an injunction. (Draft at 9).

2. The Draft Statement Could be Improved by Reinforcing Guidance on Hold-up and Exclusion Orders.

A balanced framework for exclusionary remedies is vitally important because, as the Draft Statement cautions, “opportunistic conduct by SEP holders to obtain, through the threat of

⁷ See, e.g., *In re Certain Gaming and Entertainment Consoles, Related Software, and Components Thereof*, Inv. 337-TA 752, Third Party United States Federal Trade Commission’s Statement on the Public Interest (June 6, 2012), https://www.ftc.gov/sites/default/files/documents/advocacy_documents/ftc-comment-united-states-international-trade-commission-concerning-certain-gaming-and-entertaining/1206ftcgamingconsole.pdf. We note that the quote in the Draft Statement from section 1337(d)(1) omits the “impact on competitive conditions in the U.S. economy” factor, and assume that is an oversight.

exclusion, higher compensation for SEPs than they would have been able to negotiate prior to standardization, can deter investment in and delay introduction of standardized products, raise prices, and ultimately harm consumers and small businesses.” (Draft at 4). However, the discussion of “opportunistic conduct” in the Draft Statement could be misinterpreted to suggest that opportunistic conduct by licensors and licensees is equally harmful. (Compare Draft at 4 and 10.)

Such equivocation would be incorrect. A recent study has shown empirical support for the proposition that SEP-holders engage in opportunistic behavior to seek to regain the hold-up power they agreed to limit; exploiting the sunk costs of those locked in to the standard.⁸ As the DOJ recently observed “[o]nce an implementer has committed to a standard there is little it can do to counter an SEP holder’s threat of exclusion.”⁹ Conversely, there is little empirical support for opportunistic conduct by licensees, so-called “hold-out” theory, particularly in the context of pre-litigation licensing negotiations.¹⁰ In particular, proponents of “hold-out” seek to discourage the pro-competitive behavior of a prudent licensee that wants to know that the patents it is asked to pay to license are valid and infringed. We recommend the Agencies clarify that anticompetitive behavior by licensees (so called “hold-out”) poses less of a systemic risk than does such behavior by licensors (or “hold-up”). (Compare Draft at 4 and 10.)

We further suggest that the Draft Statement place greater emphasis on the harm caused by the threat ITC exclusion orders pose to implementers of standards and the consumers who purchase the products they develop. This recommendation is particularly important given that *eBay* is not the governing law at the ITC and that some SEP licensors continue to seek additional negotiating leverage by seeking ITC exclusion orders. Although the ITC has not voted to grant an exclusion order based on SEP infringement since *Samsung v. Apple* in

⁸ See Brian J. Love, Yassine Lefoulli & Christian Helmers, Do Standard-Essential Patent Owners Behave Opportunistically? Evidence from U.S. District Court Dockets, SSRN Working Paper (Nov. 8, 2020), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3727085; Bill Baer, Ass’t Att’y Gen., U.S. Dep’t of Justice, *Reflections on the Role of Competition Agencies When Patents Become Essential* (Sept. 11, 2021),; Joseph Kattan & Chris Wood, *Standard-Essential Patents and the Problem of Hold-up*, in Nicholas Charbit and Elisa Ramundo, eds., *William E. Kovacic, An Antitrust Tribute – Liber Amicorum* (Dec. 13, 2013), http://awa2014-concurrences.nursit.com/IMG/pdf/standard_essential_patent_kattan-wood.pdf.

⁹ Wilder Speech, *supra* note 2, at 7.

¹⁰ See Brian J. Love & Christian Helmers, An Empirical Test of Patent Hold-Out Theory: Evidence from Litigation of Standard Essential Patents, Santa Clara Univ. Legal Studies Research Paper (Oct. 26, 2021), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3950060

2013 (which was disapproved by the U.S. Trade Representative),¹¹ many SEP cases have been filed. So far, none of the subsequently asserted SEPs have been found essential, not-invalid, and infringed, which provides insight into the overall quality of many SEP portfolios. SEP holders' continued preference for ITC cases¹² demonstrates the significant need for the U.S. government to maintain a position that ITC exclusion orders on SEPs subject to FRAND licensing commitments are contrary to the public interest.¹³

3. The Agencies Should Reject Unsupported Arguments to Retain the 2019 Statement.

Finally, we urge the Agencies to look critically at the parade of horrors that we anticipate will be identified by those that oppose replacement of the 2019 Statement. As discussed, foreign SEP licensors will benefit from playing on the unbalanced licensing field promoted by the prior Administration, which endorsed SEP licensors increasing their bargaining leverage through exclusionary remedies.¹⁴ In addition, contrary to certain claims by SEP asserters, a recent study finds that limiting exclusionary relief as a remedy for FRAND-committed SEPs has not been shown to harm participation in standard setting or in

¹¹ *In re Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, & Tablet Computers*, Inv. No. 337-TA-794, Comm'n Op., (July 5, 2013); Letter from Michael B. G. Froman, Ambassador, to Hon. Irving A. Williamson, Chairman, U.S. Int'l Trade Comm. at 2-3 (Aug. 3, 2013), https://ustr.gov/sites/default/files/08032013%20Letter_1.PDF.

¹² See, e.g., *In re Certain UMTS and LTE Cellular Communications Modules & Products Containing the Same*, No. 337-TA-1240 (Dec. 17, 2020) (complaint filed by Philips seeking exclusion order on four claimed standard essential patents).

¹³ See, e.g., Letter from Senators Mike Lee, Herb Kohl, Jon Kyl, John Cornyn, Jim Risch, and John Hoeven to Hon. Deanna Okun, Chairman, U.S. Int'l Trade Commission, *In Re Certain Gaming Entertainment Consoles, Related Software, and Components Thereof*, Inv. No 337-TA-752 (June 19, 2012) ("Any precedent that would enable or encourage companies to include their patented technology in a standard, commit to license included patents on RAND terms, and then seek to secure an exclusion order despite a breach of that commitment would thus implicate significant policy concerns. Such an outcome would severely undermine broad participation in the standards-setting process, which would in turn threaten the meaningful benefits these standards provide for both industries and consumers."); Letter from Senators Mike Lee, Amy Klobuchar, Jim Risch and Mark Begich to Hon. Irving Williamson, Chairman U.S. Int'l Trade Comm. *In Re Certain Electronic Devices Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Table Computers*, Inv. No 337-TA-794 (May 21, 2013) (same).

¹⁴ See Charles Duan, *The U.S. Int'l Tr. Comm'n: An Empirical Study of Section 337 Investigations*, R Street Policy Study No. 246 (Nov. 2021) https://www.rstreet.org/wp-content/uploads/2021/11/REALFINAL_22Nov21_RSTREET246-1.pdf.

innovation contributed to standards.¹⁵ SEP monetizers have not identified what innovation was discouraged by the 2013 Policy Statement, which was in force from early 2013 to 2019, a period that coincided with most of the fundamental engineering work on the 5G cellular standard. Nor will the balanced policy embraced in the Draft Statement exacerbate current shortages in chips and weakened supply chains. These problems were in fact caused, in part, by certain SEP licensor practices limiting the availability of licenses to chip suppliers.¹⁶ These practices led to fewer manufacturers and a more brittle supply chain because many chip suppliers were forced to exit, or not even enter, the market for baseband processors used for cellular communications when they were unable to license SEPs.

We appreciate the opportunity to comment on the Draft Statement and urge the Agencies to act quickly to issue a finalized statement that is at least as balanced as the Draft Statement.

¹⁵ Tim Simcoe & Qing Zhang, *Does Patent Monetization Promote SSO Participation?* (Nov. 29, 2021) <https://papers.ssrn.com/sol3/papers.cfm?>

¹⁶ See *FTC v. Qualcomm* Findings of Fact and Conclusions of Law at 114-122 (N.D. Cal. May 21, 2019), *judgment reversed by Qualcomm, Inc. v. FTC*, 969 F.3d 974 (9th Cir. 2020) (reversing legal conclusions but not findings of fact).