

March 18, 2019

The Honorable Wilbur Ross
Secretary of Commerce

U.S. Department of Commerce
1401 Constitution Avenue, NW
Washington, DC 20230

The Honorable Andrei Iancu
Under Secretary of Commerce for Intellectual Property
Director of the U.S. Patent and Trademark Office
U.S. Patent and Trademark Office
600 Dulaney Street
Alexandria, VA 22313

RE: Promote R&D spending and long-term investments in innovation; endorse a competitive, robust, open and balanced standardization ecosystem; sustain U.S. industry leadership in strategic technology areas; DOJ AAG Announcements on December 7, 2018

Dear Secretary Ross and Under Secretary Iancu:

1. The undersigned, a cross-sectoral group of corporations write to applaud and support Assistant Attorney General (AAG) for Antitrust Makan Delrahim's policy positions regarding intellectual property-antitrust interface issues in general and standard-essential patents (SEPs or essential patents) in particular. In this context, we welcome AAG Delrahim's recent withdrawal of the Department of Justice (DOJ) Antitrust Division assent to the 2013 Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments ("Policy Statement").¹
2. We encourage you to take positions that are compatible with those expressed by AAG Delrahim and, more generally, to support policies that generate more certainty, in the U.S. and abroad, as to the boundaries of patent rights and the remedies available to patent owners. We also urge you to take appropriate steps to ensure that the U.S. Government stands united behind policies that promote Research and Development (R&D) and long-term investments in innovation, endorse a competitive, robust, open and balanced standardization ecosystem, and preserve the leadership of the U.S. in strategic technology areas such as 5G, Internet of Things, and Artificial Intelligence.

¹ Makan Delrahim, Assistant Attorney Gen., DOJ Antitrust Div., Telegraph Road: Incentivizing Innovation at the Intersection of Patent and Antitrust Law, Remarks at the 19th Annual Berkeley-Stanford Advanced Patent Law Institute (Dec. 7, 2018), at 6-7. <https://www.justice.gov/opa/speech/file/1117686/download>.

About the Undersigned and the Standardization Ecosystem

3. The undersigned invest billions of dollars in R&D annually in the U.S., participate in, and often lead, the development of cutting-edge standards² that substantially contribute to social welfare and quality of life of U.S. consumers, and often compete in the downstream market for standard-based products and services. Collectively, we employ tens of thousands of people in the U.S. and contribute significantly to the U.S. Gross Domestic Product (GDP) and R&D spending.
4. The undersigned voluntarily provide access to their proprietary technologies through technology transfer and licensing, and license their standard essential patents on Fair, Reasonable and Non-Discriminatory (or F/RAND) terms. We are not only licensors of essential patents, rather, we are also often licensees in need of licensing numerous essential patents held by others. As both licensors and licensees of standard-essential patents, we place great value on the F/RAND licensing regime. This regime ensures that those implementing a standard (whether they are large or small companies) are afforded the opportunity to secure access to the standardized technology on reasonable terms and conditions, while those providing innovative technology for the standard are able to secure a fair return, ensuring that there is some incentive to contribute standard essential patents to the standardization enterprise. We believe a comprehensive and cautious approach to disputes arising over essential patents is necessary to maintain the balance between technology users and innovators that the F/RAND regime has proved to navigate so effectively.
5. The development of a successful standard requires significant investments of labor and technology by numerous stakeholders. Such investments are made years before the standard finds any commercial application. As an example, the development of the 5G mobile telecommunication standard started almost ten years ago. Therefore, the contributing innovators participating in the development of the 5G standard, or other similar standards, have already sunk their risky investments in R&D by the time the standard starts gaining commercial momentum.
6. The innovators behind highly-successful performance standards, including the undersigned, often rely on the FRAND licensing framework as a tool to provide access to their cutting-edge technologies, while partly recouping the costly and risky investments made into the development of such highly-successful standards, and reinvesting in further R&D and innovation to create the next generation of similar highly-successful standards. To continue

² Throughout this letter, we use the term standards to refer to cutting-edge, technology standards (also known as “performance standards”), developed in an open, consensus-based process by multiple innovators through Standards Development Organizations (SDOs). These performance standards are different and generally more likely to include cutting-edge, high-value technologies than standards set purely for interoperability purposes (such as the size of a sheet of paper, or an electrical plug and socket, etc.) by Standards Setting Organizations (SSOs). The U.S. Congress has also used the term SDOs in the Standards Development Organization Advancement Act of 2004, Public Law 108-237, 118 Stat. 663 (June 22, 2004) <http://www.gpo.gov/fdsys/pkg/PLAW-108publ237/pdf/PLAW-108publ237.pdf>.

innovating, we need to invest in the visionaries. In the long run, the fruits of early and fundamental research can be contributed back to the ecosystem, creating a virtuous cycle that enhances innovation, competition and consumer welfare.

The Importance of Injunctive Relief in U.S Patent Law

7. The undersigned believe injunctions and exclusionary orders play a fundamental role in maintaining a balance in bargaining leverage between patent owners and infringers, and incentivizing a free market approach to patent licensing.

8. As U.S. Supreme Court Chief Justice Roberts wrote:

“This [practice of granting injunctive relief upon a finding of infringement] is not surprising, given the difficulty of protecting a right to exclude through monetary remedies that allow an infringer to use an invention against the patentee’s wishes [...].”³

9. Congress has historically sought to balance the availability of legal remedies (damages) for patent infringement with the availability of equitable remedies (injunctions and recovery of the infringer’s profits) for patent infringement.

10. The 1793 Patent Act called for automatic trebling of damages out of concern for under compensating patent holders. At that time, actions in equity were not widely available to patent holders, which meant that patent holders would have to file serial lawsuits to prevent future infringement.

11. The 1946 amendments to the Patent Act revised the damages statute (RS 1942) to include nearly verbatim language to that of 35 U.S.C. § 284, which was adopted as part of the 1952 Patent Act. The legislative history of the 1946 Patent Act strongly indicates that Congress was concerned about awarding a patent holder only a reasonable royalty because it would amount to “compulsory licensing.” The amendments passed Congress because a patent holder could avail itself of injunctive relief. As noted in the Senate Committee Report, “The relief that a patent owner needs against an infringer to protect his right in his patent and to compensate him for past infringement is an injunction to prevent future invasion of his right and general damages as due compensation for infringing either or any of the rights secured to the patent owner by his patent.”

12. A balanced FRAND regime based on the right incentives has guaranteed a fair return for innovators and widespread adoption of standard-based devices and services for decades, enhancing innovation and increasing consumer welfare through fierce competition and decreasing prices. A Boston Consulting Group report analyzing mobile technologies, reveals

³ *eBay Inc. v. MercExchange LLC*, 547 U.S. 388 (2006) available at <https://supreme.justia.com/cases/federal/us/547/388/>.

that from 2005 to 2013 costs of network infrastructure per megabyte fell 95% from 2G to 3G, and 67 percent from 3G to 4G technologies.⁴ In addition, the mobile subscription mobile average cost regarding maximum data speed decreased about 99 percent, while global data consumption doubled every year.

Widespread Infringement and Hold-Out Problem

13. Unfortunately, in recent years rampant free riding on others' innovation has reached unprecedented and concerning levels. A recent study by Professors Bowman Heiden and Nicolas Petit⁵ concludes that patent hold-out is a "significant phenomenon." Despite explosive growth in the global smartphone market (340% growth for smaller entrants in 2011-2015), SEP licensors have rather experienced a significant reduction in licensing revenue as a result of delay (44%) and non-payment (39%). In addition, the study documents a dramatic and steady reduction in licensing coverage for this market (from 73% in 2006 to 39% in 2016). In other words, a reality of lucrative long-term infringement is, regrettably, becoming more and more prevalent.

14. An increasing number of unlicensed vendors offer large quantities of infringing standard-compliant devices or services with complete disregard for paying any intellectual property royalties at all. Patent litigation has had an effect only on those specifically named in the litigation (if at all) and has thus far had minimal impact on the broader free-riding infringing community. This trend takes its toll on technology contributors, who are unable to effectively address such widespread free-riding activity and are thus not recouping reasonable royalties for their patented technology. This increasing level of free riding also negatively affects law abiding companies who do take licenses. Such good corporate citizens see their market shares affected by free-riders, often based overseas, who can charge lower prices by disregarding intellectual property fees. This, in turn, encourages such good faith licensees to advocate for vastly reduced royalties in renewal negotiations, or to turn into free-riders themselves. Free-riders, too, may also be negatively affected. When patent litigation is initiated against them, they typically have not reserved any money to pay royalties, and therefore could face bankruptcy upon a damages award being found. This means that technology contributors can never be compensated by this free riding segment, which itself encourages more infringing freeriding - a vicious cycle prejudicial to technology contributors, continued innovation, and ultimately, consumers.

⁴ Boston Consulting Group, 'The Mobile Revolution' (2015, available at https://www.bcgperspectives.com/content/articles/telecommunications_technology_business_transformation_mobile_revolution/).

⁵ Bowman Heiden and Nicolas Petit, 'Patent Trespass and the Royalty Gap: Exploring the Nature and Impact Of 'Patent Holdout'', (June 6, 2017, available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2981577).

The Right to Exclude is Obligatory Under the WTO TRIPS Agreement

15. Patent rights are enshrined in the U.S. Constitution.⁶ Under U.S. law, “[e]very patent shall contain... a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States”⁷ (emphasis added). This basic premise has now been accepted in virtually every country in the world through the World Trade Organization (WTO) Agreement on Trade Related Aspects of Intellectual Property (TRIPS), to which the U.S. is a signatory.
16. The WTO TRIPS agreement establishes minimum standards of protection and enforcement that the U.S. and other signatory governments have to give to intellectual property rights, regardless of the nationality of their holder. Similar to the U.S. law framework, the framework of the WTO TRIPS multilateral treaty is that a patent grants a right to exclude,⁸ and the availability of effective action against any patent infringement and expeditious remedies to prevent infringements are required.⁹
17. A broad rule severely limiting the ability to enforce or even seek prohibitive orders against infringers – as some have argued was suggested in the Policy Statement – would conflict with the WTO Standard. Hence, withdrawal of the Policy Statement is also welcome and important from the angle of ensuring the U.S. is compliant with its WTO obligations, which is especially important under the current administration’s priority for holding foreign trading partners to the WTO and U.S. intellectual property standards.¹⁰

The Right to Exclude is at the Core of Patent Rights; DOJ Withdrawal from the 2013 Policy Statement is Commendable and Consistent with Later U.S. Law and FTC Chair Positions

18. We support AAG Delrahim’s statements explaining that the right to exclude granted by patents is core to patent rights as firmly grounded in the U.S. Constitution.¹¹ We agree with him that the

⁶ U.S. Constitution, Article 1, Section 8, Clause 8,

⁷ 35 U.S. Code § 154.

⁸ WTO TRIPS Article 28(1) (“[a] patent shall confer on its owner the following exclusive rights...to prevent third parties not having the owner’s consent from the acts of: making, using, offering for sale, selling, or importing [infringing products]”). Article 28(2) thereto applies to where the patent is granted over a process, in which case it “prevent[s] third parties not having the owner’s consent from the act of using the process.”

⁹ WTO TRIPS, Article 41(1) (“Members shall ensure that enforcement procedures as specified in this Part are available under their law so as to permit **effective action against any act of infringement of intellectual property** rights covered by this Agreement, **including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements.** These procedures shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse”) (emphasis added).

¹⁰ See e.g. U.S. Intellectual Property Enforcement Coordinator, Vishal Amin, testimony before the Senate Judiciary IP Subcommittee (February 26, 2019) available at <https://www.judiciary.senate.gov/imo/media/doc/Amin%20Testimony.pdf>.

¹¹ Assistant Attorney General Makan Delrahim, Protecting Free-Market Patent Bargaining, Competition, and the Right To Exclude, Remarks at the Federal Circuit Bar Association Global Series 2018, (October 10, 2018) <https://www.justice.gov/opa/speech/file/1100016/download> (“Patent rights function best if an owner retains a right to exclude. That right ensures that any price paid for a patented product or license reflects the bargaining leverage that the patent regime bestows. Depriving a patent holder of this right

Policy Statement created confusion,¹² and therefore welcome his unequivocal withdrawal of the DOJ assent to the Statement as follows:

“[I]n the interest of clarity and predictability of the laws, and among the patent law community with whom we share the goal of incentivizing innovation: The Antitrust Division is hereby withdrawing its assent to the 2013 joint ‘Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments.’”¹³

19. We agree with AAG Delrahim that the Policy Statement did not give appropriate consideration to the challenges that patent holders face in battling long-term strategic infringement, known as “hold-out,” after innovators have already sunk their investments into developing a valuable technology. Many of us have experienced such hold-out and its effects first hand, both in the U.S. and overseas. Our experience, backed up by the findings of some courts, is that such strategic long-term infringement was encouraged and emboldened by the Policy Statement, and became more prevalent after its issuance in 2013.
20. The now disavowed Policy Statement was also at odds with the later-issued 2014 decision of the Court of Appeals for the Federal Circuit in *Apple Inc. v. Motorola Inc.*¹⁴ In that decision, the court found no reason to create a separate rule or analytical framework for addressing injunctions for FRAND-assured patents, noting that the *eBay* framework provides ample flexibility for addressing the unique aspects of FRAND-assured patents and industry standards in general.¹⁵
21. We were also encouraged to see FTC Chairman Joseph Simons express views in September 2018 remarks that appear consistent with AAG Delrahim’s views on the application of antitrust law to issues involving FRAND-assured patents noting that a breach of a FRAND commitment

would skew the bargain away from the free-market incentive scheme that the Constitution and Congress have established. Even worse, it threatens to convert the licensing bargaining process into a compulsory licensing scheme”).

¹² Assistant Attorney General for Antitrust Makan Delrahim, Telegraph Road: Incentivizing Innovation at the Intersection of Patent and Antitrust Law, Remarks at the 19th Annual Berkeley-Stanford Advanced Patent Law Institute (Dec. 7, 2018) at 5 <https://www.justice.gov/opa/speech/file/1117686/download> (“I fear that we at the Antitrust Division gave some observers the opposite impression, however, with the confusion created by the joint statement issued by the Department of Justice and the U.S. Patent & Trademark Office in early 2013, entitled ‘Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments’”).

¹³ *Id.* at 6-7.

¹⁴ In addition, International Trade Commission Administrative Law Judge Theodore Essex declined to follow the suggestions of the Policy Statement on two occasions. See Initial Determination on Violation of Section 337 and Recommended Determination on Remedy and Bond, *In the Matter of Certain Wireless Devices with 3G and/or 4G Capabilities and Components Thereof*, Inv. No. 337-TA-868, at 124-126 (June 13, 2014); Initial Determination on Remand, *In the Matter of Certain 3G Mobile Handsets and Components Thereof*, Inv. No. 337-TA-613, at 60-61 (April 27, 2015).

¹⁵ *Apple Inc. v. Motorola Inc.*, 757 F.3d 1286, 1331–32 (Fed. Cir. 2014), *overruled on other grounds by Williamson v. Citrix Online, LLC*, 792 F.3d 1339 (Fed. Cir. 2015) (“To the extent that the district court applied a *per se* rule that injunctions are unavailable for SEPs, it erred [...]. [W]e see no reason to create [...] a separate rule or analytical framework for addressing injunctions for FRAND-committed patents. The framework laid out by the Supreme Court in *eBay*, as interpreted by subsequent decisions of this court, provides ample strength and flexibility for addressing the unique aspects of FRAND committed patents and industry standards in general. 547 U.S. at 391–94 [...]. [T]he public has an interest in encouraging participation in standard-setting organizations but also in ensuring that SEPs are not overvalued. While these are important concerns, the district courts are more than capable of considering these factual issues when deciding whether to issue an injunction under the principles in *eBay*.”).

is not an antitrust violation, and can be dealt with as a matter of contract law.¹⁶ Similarly, Chairman Simons also acknowledged that both hold-out and hold-up can be problematic.¹⁷

Conclusion

22. For the reasons set forth in this letter, we encourage you to join AAG Delrahim's efforts to provide more clarity and avoid any confusion, in the U.S. and abroad, as to the role of the patent system and of injunctions in protecting innovation and investments. AAG Delrahim's policy work in this area signals an important return to course, and to positions his Division has taken over the years, except for the brief 2012-2016 timeframe. In line with that, we also urge you to support and join the DOJ's Antitrust Division and withdraw from the 2013 Policy Statement, especially as it has been clearly called into question by the Federal Circuit decision in *Apple v. Motorola*.
23. We take this opportunity to thank you for your leadership and for your attention to this matter, which is of high importance to the Nation's economy and competitiveness. We thank you for your consideration and stand ready to assist you in any way we can, as well as elaborate on our views or answer any questions you or your staff may have.

Sincerely,



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cc:

The Honorable William Pelham Barr, Attorney General, Department of Justice

The Honorable Makan Delrahim, Assistant Attorney General for Antitrust, Department of Justice

The Honorable Jerrold Nadler, Chairman, House Judiciary Committee

The Honorable Doug Collins, Ranking Member, House Judiciary Committee

The Honorable Lindsey Graham, Chairman, Senate Committee on the Judiciary

The Honorable Dianne Feinstein, Ranking Member, Senate Committee on the Judiciary

¹⁶ Joseph Simons, Chairman, Fed. Trade Comm'n, Prepared Remarks at Georgetown Law Global Antitrust Enforcement Symposium 5-6 (September 25, 2018), https://www.ftc.gov/system/files/documents/public_statements/1413340/simons_georgetown_lunch_address_9-25-18.pdf ("I agree with the leadership of the Department of Justice Antitrust Division that a breach of a FRAND commitment, standing alone, is not sufficient to support a Sherman Act case but, rather, that more is needed").

¹⁷ *Id.* at 6.