

Public Submission

INNOVATION ALLIANCE

February 4, 2022

Uploaded via <http://www.regulations.gov> to ATR-2021-0001

Mr. Jonathan Kanter
Assistant Attorney General
Antitrust Division
U.S. Department of Justice

Subject: Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments

Dear Mr. Kanter:

The Innovation Alliance appreciates the opportunity to comment on the draft policy statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments (“draft policy statement”). We commend the Department of Justice for seeking input, but the draft policy statement is flawed and should be withdrawn or significantly revised.

The Innovation Alliance is a coalition of research and development-based technology companies representing innovators, patent owners, and stakeholders from a diverse range of industries that believes in the critical importance of maintaining a strong patent system that supports innovative enterprises of all sizes. The Innovation Alliance is committed to strengthening the U.S. patent system to promote innovation, economic growth, and job creation, and we support legislation and policies that help to achieve those goals.

We oppose the draft policy statement because it would:

- Cause uncertainty about the ability to protect intellectual property and so undermine incentives to engage in risky research and development.
- Undermine U.S. leadership in emerging and strategic technologies.
- Violate current law by treating standards-essential patents different than other patents.
- Create more licensing disputes and litigation.
- Encourage delay and other bad-faith tactics in licensing negotiations.
- Unravel existing business relationships and agreed to licensing arrangements.

Public Submission

If adopted as written, the policy draft statement threatens U.S. national security by undermining American innovation and ceding global technological leadership to China. It also permits Big Tech companies to maintain their market dominance by squashing competition from smaller inventors and entrepreneurial businesses.

Limiting injunctions in cases involving the infringement of standard-essential patents (“SEPs”), as the draft policy statement does, empowers foreign competitors to steal U.S. intellectual property and gives them an edge in the standard-setting process. Weakening the ability to secure an injunction will also encourage free riders who engage in bad-faith negotiations and delay tactics during SEP licensing. That is one reason why current law rejects *per se* prohibitions on injunctions and rigid tests.¹

The draft policy statement further creates immense uncertainty by abruptly reversing prior policy statements. In 2019, the Department of Justice issued a policy statement that significantly revised the previous policy statement issued just six years prior in 2013. And now, the Department of Justice seeks to revise the 2019 policy statement. These repeated policy shifts are highly disruptive, especially when evidence does not support a need for yet another new policy.

The 2019 policy forecast and is in line with the conclusions by other courts. Indeed, over the last several years, courts in multiple jurisdictions have concluded that SEPs should be treated the same as other patents. For example, the U.S. Court of Appeals for the Federal Circuit has explained that there is no singular rule for injunctions.² In the same way, a series of seminal cases in the United Kingdom and Germany have agreed with the 2019 policy statement that SEP holders have the right to seek injunctive relief against an infringer of F/RAND-committed SEPs.³ That international convergence has reduced business uncertainty by facilitating and encouraging good-faith licensing negotiations on the part of both implementers and SEP holders, ultimately bolstering U.S. companies’ investment in research and development critical for facilitating new economic activity and ensuring U.S. national security. The draft policy statement jeopardizes this international consensus and its attendant benefits.

The inability to rely on a consistent government position injects even greater risk into the already risky decisions companies make to invest significantly in research and development to create new inventions. This heightened risk is further compounded because the new policy statement runs contrary to settled law, the foundation that U.S. companies rely on when making business decisions. In the *eBay* case, the Supreme Court held that injunctions were indeed available to remedy infringement once a plaintiff shows: “(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff

¹ See *Apple v. Motorola*, 757 F.3d 1286, 1331 (Fed. Cir. 2014) (“To the extent that the district court applied a *per se* rule that injunctions are unavailable for SEPs, it erred.”).

² *Id.*

³ See *Sisvel v. Haier*, Bundesgerichtshof [BGH] [Federal Court of Justice], May 5, 2020, KZR 36/17, at 81; *Unwired Planet Int’l Ltd. v. Huawei Techs. Co.*, EWHC (Pat) 2988 [1] (Eng.), ¶495.

Public Submission

and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.”⁴ As the Court emphasized: “These familiar principles apply with equal force to disputes arising under the Patent Act” and “[n]othing in the Patent Act indicates that Congress intended such a departure.”⁵ The Federal Circuit followed this direction in the *Apple v. Motorola* case, where it made clear that injunctions are indeed available to remedy SEP infringement.⁶ In other words, the law is clear that injunctions should be available for patent infringement, regardless of the type of patent at issue.

The clarity provided by the 2019 policy statement is crucial because contributions to standards are the result of significant investment—exceeding billions of dollars per year—which innovators undertake with the expectation of adequate and fair returns as set forth in their F/RAND agreements. If U.S. companies are unable to receive a fair return-on-investment on their inventions, they will divert their engineering talent and business expertise elsewhere, and the United States will fall far behind other countries. Troubling signs illustrate that this is already happening due to the erosion of patent protection in the United States generally and the determined efforts of our global competitors. According to the World Intellectual Property Organization (“WIPO”), the U.S. share of global patent activity was 34 percent in 2000 but has been falling ever since then.⁷ In 2020, WIPO reported that China topped the world in patent applications with nearly 1.5 million (constituting 43.4% of the share of the world total), 2.5 times more than the United States’ approximately 600,000, which was second (constituting only 19.3%). China increased its patent filings rapidly in large part through significant government subsidies and China’s quantity-first patent policy.⁸

The 2019 policy statement properly recognized that courts are empowered to issue injunctions to stop infringement of SEPs. Patent infringement by licensees is also part of a larger problem of intellectual property theft by foreign competitors, including China. To stop the theft of American intellectual property, domestic policies should make it more difficult for foreign entities to infringe U.S. patents, rather than denying patent holders the ability to enforce their patents. Former U.S. Patent and Trademark Directors Andrei Iancu and David Kappos have repeatedly warned that weakening intellectual property laws will “in the long run make it more likely that the technology is not developed in the United States at all The beneficiaries of enfeebled SEP enforcement aren’t American start-ups or consumers; they are nations like China,

⁴ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

⁵ *Id.* at 391-92.

⁶ *See Apple*, 757 F.3d at 1331.

⁷ WORLD INTELL. PROP. ORG., *World Intellectual Property Indicators 2020*, at 7 (2020), https://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2020.pdf.

⁸ *See* Alex He, *What Do China’s High Patent Numbers Really Mean*, *Center for Int’l Governance Innovation* (Apr. 20, 2021), <https://www.cigionline.org/articles/what-do-chinas-high-patent-numbers-really-mean/>.

Public Submission

with centrally controlled economies that funnel enormous resources toward technologies like AI, 5G, and quantum computing.”⁹

Simply put, the proposed shift in policy will undermine the confidence and clarity necessary to incentivize investments in important and risky research and development while simultaneously giving foreign competitors who do not rely on patents to drive investment in key technologies, like China, a distinct advantage. By discouraging the use of injunctions and reducing certainty about who qualifies as an unwilling licensee, the draft policy statement not only contradicts current law, but will undercut the ability to make significant advances in critical technologies that are integral for the future growth of the U.S. standards leadership.¹⁰ Better-positioned foreign competitors will quickly seize that lost ground. At the same time, Big Tech companies who have been pushing for this policy reversal would take advantage of weaker SEP holder rights to steal innovations from smaller inventors and entrepreneurs and further lock in their market dominant positions.

We also have significant concerns with the lack of interagency coordination and rushed nature of this proposed policy change. The draft policy statement was issued in the name of the U.S. Patent and Trademark Office (“USPTO”) and National Institute of Standards and Technology (“NIST”), as well as the Department of Justice, and features their logos prominently. As you know, President Biden has nominated two highly qualified women to serve as leaders of USPTO and NIST, but neither has had an opportunity to participate in crafting the SEP policy statement. Moreover, at Attorney General Garland’s confirmation hearing, Senator Coons (D-DE) specifically requested that the Department of Justice wait until a Senate-confirmed leader is in place at USPTO before moving forward with any change in policy.

To address these concerns, the policy statement should either be significantly revised or withdrawn.

1. Question 1 — Should the 2019 Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments be revised?

No, the 2019 policy statement is a clear and accurate statement of the law as it stands today. In contrast, the proposed policy statement creates significant uncertainty in SEP licensing because it is the third dramatic shift in less than decade of the U.S government’s stance on remedies for SEP infringement. Restricting the remedies available to SEP holders benefits infringers—particularly foreign infringers—by limiting avenues to prevent and address patent infringement. Absent access to injunctions, implementers will be encouraged to freeride on the SEP holder’s invention and will have little incentive to negotiate in good faith or agree promptly to F/RAND terms. Further, limiting and

⁹ Andrei Iancu & David Kappos, CSIS, *Biden Administration Should Preserve Strong Patent Protection for Standardized Technology* (Nov. 9, 2021), <https://www.csis.org/analysis/biden-administration-should-preserve-strong-patent-protection-standardized-technology>.

¹⁰ See e.g., *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

Public Submission

creating uncertainty about an SEP holder's ability to obtain an injunction could prolong litigation, rather than facilitate voluntary licensing agreements between the parties.

Courts in both domestic and foreign jurisdictions have established that injunctions should be available to stop SEP infringement.¹¹ The draft statement runs counter to established law and creates uncertainty over patent enforceability among industry and market stakeholders. The 2019 policy should not be revised because it is an accurate statement of current law. Specifically, it recognizes that injunctions should be available to stop SEP infringement, and that a F/RAND commitment should only be one factor among many in a court's analysis regarding whether to issue an injunction.¹² As the Federal Circuit has explained in making clear that injunctions are available for SEP infringement, it saw "no reason to create . . . a separate rule or analytical framework for addressing injunctions for FRAND-committed patents."¹³

SEP holders are always incentivized to reach agreements to license their patents to implementers. That is the case not only because that is how SEP holders earn revenue and fund their research and development efforts, but also because standards development is a highly complex, ongoing process with many of the same repeat participants. A well-functioning standards organization requires cooperation among all parties, technology developers as well as technology implementers. Any SEP holder that made licensing its patents difficult would find that standard development organizations, to facilitate the smooth functioning of standards development, would not include its technological contributions in future standards.

On the other hand, without the availability of injunctive relief, implementers have little incentive to reach an agreement to license a patent from an SEP holder. The maximum penalty an implementer would eventually face for failing to negotiate with an SEP holder and/or dragging out litigation would be to pay the same F/RAND royalty for using the SEP that it would have had to pay if it had instead chosen to engage in a good faith negotiation from the beginning. In the absence of the availability of injunctive relief, there is every incentive and no downside for implementers to delay taking a license in the hopes the SEP holder would not have the financial wherewithal to sustain a lengthy period trying to force the implementer to do so.

The only mechanism to cure this asymmetry is the availability of injunctive relief to the SEP holder. To incentivize implementers to negotiate rather than delay and litigate, there must be the prospect the SEP holder could resort to injunctive relief if necessary.

¹¹ See *id.* at 391-92; *Sisvel v. Haier*, Bundesgerichtshof [BGH] [Federal Court of Justice], May 5, 2020, KZR 36/17, at 81; *Unwired Planet Int'l Ltd. v. Huawei Techs. Co.*, EWHC (Pat) 2988 [1] (Eng.), ¶495.

¹² See *Apple*, 757 F.3d at 1331.

¹³ *Id.* at 1331-32.

Public Submission

2. Question 2 — Does the revised draft statement appropriately balance the interests of patent holders and implementers in the voluntary consensus standards process, consistent with the prevailing legal framework for assessing infringement remedies?

No, domestic policies should seek to incentivize American investment in the development of critical technologies that will form the basis for future global standards. Development of these technologies is a risky long-term investment in research and development. If firms are unable to receive a fair return-on-investment on their innovations, they will divert their engineering and business expertise elsewhere, opening the door for foreign competitors—especially those whose efforts are financed primarily by government funding rather than patent licensing fees—to lead in technical standards and reap the benefits of standardization, or for large companies with dominant market positions to promote closed, proprietary, systems that only they control.

Standardization improves the efficiency of markets, allows for economies of scale, and facilitates competition by ensuring that key technologies are available to be licensed and used by a wide variety of implementers—as opposed to propriety technology which remains in control of a particular company. When U.S. companies successfully invent and contribute their patented technologies into global standards, the patents that cover their contributions become SEPs. In adopting a standard, members of standards development organizations (“SDOs”) select the best technologies to include in standard based upon technical merit. Technologies that are ultimately adopted into a standard are the result of substantial research and development.

SDOs typically ask that a SEP holder voluntarily commit to license their patents on F/RAND terms so that others have access to the technology, while preserving the patent holder’s right to enforce their exclusive rights to use and license the patented technologies. This commitment preserves the inventor’s hard-earned patent rights while recognizing the demands of all companies to use the technology in order to comply with the standard. An agreement by an SEP holder to license its patent on F/RAND terms, however, does not give permission for implementers of technologies to infringe on the SEP holder’s patents.

It is important to note that agreeing to F/RAND licensing terms is a voluntary contractual commitment made by SEP holders to SDOs—innovators are not legally required to make F/RAND commitments. When an SDO adopts a patented technology into a standard, then everyone who uses the standard also uses the patented technology. It is impossible to make a product that complies with the standard without infringing on the patents determined essential to that standard, so manufacturers of those products need a license in order to avoid being liable for patent infringement. Consequently, a primary purpose of a F/RAND contract is to ensure that an implementer has access to the patented standard-essential technology and that the SEP holder receives a fair return on the resources expended to develop the technology. This mutuality of considerations is at the heart of the voluntary F/RAND bargain.

The U.S. innovation ecosystem is premised on private sector investments of money and talent which is only possible through the incentives provided by strong patent protections.

Public Submission

Without U.S. innovators, foundational technologies will continue to be developed, but that innovation is much less likely to originate in the United States. The absence of a balanced patent system and the pervasive threat of infringement without recourse means that innovation will come from large conglomerates that internally develop and implement technologies. Put another way, if patents cannot be protected, companies will stop sharing technologies because there will be no economic benefit in sharing them with implementers. Importantly, some of these conglomerates will be state-backed enterprises from countries like China, which has established its commitment to standards leadership with programs such as the “China in 2035 Standards Plan.”¹⁴ Ultimately, the innovation agenda will be driven by state-driven or firm-driven priorities, not based on a competitive marketplace.

3. Question 3 — Does the revised draft statement address the competition concerns about the potential for extension of market power beyond appropriate patent scope identified in the July 9, 2021 Executive Order on Promoting Competition in the American Economy?

No, although the Executive Order recognizes the importance of maintaining U.S. leadership in 5G standards and deployment, both it and the draft policy statement have language that would have the opposite effect. Specifically, by promoting a policy to deny SEP holders the ability to obtain injunctions in cases of patent infringement, both the Order and the draft policy statement risk devaluing SEPs to the detriment of U.S. technological leadership and national security.

As the Executive Order notes: “The American information technology sector has long been an engine of innovation and growth, but today a small number of dominant Internet platforms use their power to exclude market entrants, to extract monopoly profits, and to gather intimate personal information that they can exploit for their own advantage.”¹⁵ One way in which these small number of technology platforms have been able to consolidate their power is through abuse of patents. They infringe on the patents of smaller enterprises that do not have the resources to engage in prolonged litigation on multiple fronts.¹⁶

Put another way, while the draft policy statement rightly recognizes that “[t]he patent system promotes innovation and economic growth by providing incentives to inventors to apply their knowledge, take risks, and make investments in research and development,” the policy’s rejection of injunctive relief for SEP holders destroys those incentives

¹⁴ See e.g., Sheehan, Blumenthal, and Nelson, *Three Takeaways From China’s New Standards Strategy*, Carnegie Endowment for International Peace, Oct. 28, 2021 (available at: <https://carnegieendowment.org/2021/10/28/three-takeaways-from-china-s-new-standards-strategy-pub-85678>).

¹⁵ Exec. Order No. 14036 (“Promoting Competition in the American Economy”), Jul. 9, 2021, at 1.

¹⁶ Johnson, *It’s time for Big Tech to play fair on IP*, Fortune, Jan. 17, 2022 (“They acquire and kill competitors and copy other companies’ products, sometimes spending more on legal battles than research and development.”) (available at <https://fortune.com/2022/01/17/its-time-for-big-tech-to-play-fair-on-ip-copyright-technology-law-drew-johnson/>).

Public Submission

necessary for U.S. companies to innovate, contribute to global standards, and compete with foreign competitors.

Eliminating the availability of injunctions also means that fewer innovators will participate in SDOs. While the infringement of a single implementer may not appear significant, the severity of the harm is magnified when the infringement behavior becomes the industry norm. Permitting an SEP holder to enforce an injunction against an unlicensed implementer after the SEP holder has made a good-faith licensing offer consistent with F/RAND balances the implementer's need for access to standard-essential technology with the SEP holder's need to be fairly compensated for the use of its patented inventions contributed to the standard.

4. Question 4 — In your experience, has the possibility of injunctive relief been a significant factor in negotiations over SEPs subject to a voluntary F/RAND? If so, how often have you experienced this?

Yes, rescission of the 2019 policy statement would dramatically reduce the possibility of SEP holders obtaining an injunction, impacting their ability to negotiate licenses for their patents on reasonable terms or enforcing them against a growing number of unwilling licensees that refuse to negotiate.

An injunction is the basic and longstanding way in which inventors enforce their patent rights. That includes SEPs, which both domestic and foreign courts have held may be enforced by injunctions.¹⁷ Without them, infringers are free to continue infringing unless an inventor has sufficient resources to sustain years and years of expensive litigation, and even then, the worst penalty the infringer could face would be to pay the same F/RAND royalty it should have agreed to pay when first asked to take a license. There is no reason to assume that simply because royalties are negotiated under the possibility of an injunction that terms will be outside of the F/RAND range. After all, courts are responsible for issuing injunctions, and the presence of F/RAND terms are part of the legal analysis.¹⁸

More to the point, if manufacturers in an industry have taken F/RAND licenses, the patent owner should be allowed to enjoin those who refuse to take a F/RAND license to protect the other licensees that acted in good faith. F/RAND commitments mean that a patentee agrees to treat all good-faith licensees equally. The converse is that those commitments should also allow patentees to seek injunctions against recalcitrant parties.

Timely formation of F/RAND licensing agreements benefit everyone because it enables implementers to promptly produce standard-compliant devices, consumers to reap the benefits of standardization, and SEP holders to receive compensation for their invention

¹⁷ See *Apple*, 757 F.3d at 1331; *Sisvel v. Haier*, Bundesgerichtshof [BGH] [Federal Court of Justice], May 5, 2020, KZR 36/17, at 81; *Unwired Planet Int'l Ltd. v. Huawei Techs. Co.*, EWHC (Pat) 2988 [1] (Eng.), ¶495.

¹⁸ See *eBay*, 547 U.S. at 391.

Public Submission

sooner—strengthening their incentive to continue investing in developing technology for the SDO’s next standard.

5. Question 5 — Are other challenges typically present in negotiating an SEP license? If so, what information should be provided or exchanged as a practical matter to make negotiations more efficient and transparent?

Yes, there is no requirement that one methodology be used to calculate a F/RAND rate and a lack of flexibility in licensing would present challenges in fair and transparent negotiations.

Currently, some courts allow licensors to offer differing ranges and rates based on factors like volume and potential licensee’s size.¹⁹ Requirements that all offers or licenses must have the same rate or be in breach of F/RAND obligations would significantly undercut the flexibility provided under current law. This flexibility is particularly important because portfolios often include thousands of patents. Efficiency requires a method to adjudicate licensing disputes without having to litigate each separate patent.

This licensing flexibility creates more efficient negotiations. Requiring the same rate to always be offered would significantly hinder the ability of both SEP holders and licensees to effectively negotiate the most efficient terms for all parties involved. Without this flexibility, licensees regardless of size pay the same amount, advantaging larger licensees at the expense of smaller ones.

Flexibility is also necessary to address all of the different scenarios in which licensing disputes can arise. In addition to the consummation of a new agreement, for example, disputes can occur between licensors and licensees during the pendency of—and in the renewal of—existing license agreements. The Internet platform companies noted in the July 9, 2021, Executive Order on Promoting Competition in the Economy would be the ultimate beneficiaries.

6. Question 6 — Are small business owners and small inventors impacted by perceived licensing inefficiencies involving SEPs? If so, how can licensing be made more efficient and transparent for small businesses and small inventors that either own, or seek to license, SEPs?

Yes, small businesses and inventors are often impacted by licensing inefficiencies involving SEPs. As former Chief Judge of the Federal Circuit Paul Michel has stated, these larger companies use their “influence to chip away at patent rights” and “have long relied on a strategy of deliberate infringement because enforcement litigation is too

¹⁹ It bears noting that significant data about licensing negotiations is unavailable because of non-disclosure agreements. The Innovation Alliance encourages the Department of Justice to directly engage with patent holders about their experiences in these circumstances.

Public Submission

expensive for younger smaller companies.”²⁰ To better give smaller businesses and inventors appropriate negotiating position to efficiently license SEPs, injunctions should be available as a recourse for infringement. Otherwise, these U.S. innovators will continue to be disadvantaged in securing efficient and fair licensing agreements, eviscerating their only leverage to recoup their investments and discouraging them from innovating in the first place.

Licensing can be made more efficient and transparent through an open standardization system, which benefits startups by enabling them to contribute new technologies in the standards-development process. Better access to technologies available on F/RAND terms has been a key factor in the continued growth of startups and smaller businesses. This arrangement allows these new technologies to be implemented quicker and on much larger scales than otherwise possible.

7. Question 7 — Will the licensing considerations set forth in the revised draft statement promote a useful framework for good-faith F/RAND licensing negotiations? In what ways could the framework be improved? How can any framework for good-faith negotiations, and this framework in particular, better support the intellectual property rights policies of standards-setting organizations?

No, the licensing considerations will not promote a useful framework because they create uncertainty about what remedies should be provided for SEP infringement. Over the past several years, both the United States and foreign jurisdictions have clarified how negotiations should be conducted and what remedies should be available to help ensure that negotiations occur in good faith.

There has been global consensus that opportunism might occur both on the side of the SEP holder and on the side of the implementer. Courts have consequently refused to base their decisions on theoretical conjectures and a categorical rejection of injunctive relief and have instead pursued more fact-based analyses in both patent infringement and antitrust contexts. In 2020, two landmark decisions in Germany and the United Kingdom confirmed the availability and importance of injunctions to enforce SEPs. In *Sisvel v. Haier*, the German Federal Court of Justice reiterated that even SEP holders that have committed to offer licenses on F/RAND terms might be entitled to an injunction.²¹ And in *Unwired Planet Int’l Ltd. v. Huawei Techs. Co.*, the U.K. Supreme Court held that the issuance of an injunction was appropriate and rejected the argument that a F/RAND commitment eliminates injunctive relief as “counter” to the balance that a F/RAND

²⁰ Paul Michel, *Big Tech is Overwhelming Our Political System*, Real Clear Policy, Nov. 20, 2020 (available at https://www.realclearpolicy.com/articles/2020/11/20/big_tech_is_overwhelming_our_political_system_650331.html).

²¹ Bundesgerichtshof [BGH] [Federal Court of Justice], May 5, 2020, KZR 36/17, at 81.

Public Submission

commitment seeks to achieve between protecting the interests of implementers and SEP holders.²²

In the United States, high-ranking officials in the Department of Justice and USPTO have also discussed the need to address bad-faith licensing negotiations.²³ As former USPTO Director Iancu explained: “[W]hen it comes to FRAND-encumbered standard essential patents (SEPs), any policy statement should incentivize good faith negotiations and disincentivize threats of either patent hold-up or patent hold-out.”²⁴

The 2019 policy statement established a continuity with the law that allows for good faith and efficient negotiations. It is unclear why a revision to the 2019 policy statement is appropriate or needed now. The 2019 statement is consistent with both U.S. and foreign law when it comes to the availability of injunctions for SEP infringement.²⁵

8. Question 8 — What other impacts, if any, would the revised draft statement have on standards-setting organizations and contributors to the standards development process?

U.S. policy should continue to incentivize industry to pursue development of critical technologies. American companies have already invested billions of dollars to ensure existing and near-future U.S. leadership in technologies like 5G. The draft policy statement, however, would devalue SEPs, and undermine the ability of U.S. firms to invest in the research and development needed to maintain global leadership in 5G and other critical technologies.

Without robust American investments, China—which has clear aspirations to control and lead in critical standards and technologies that are essential to our national security—will be left without any competition. Since 2015, President Xi has declared “whoever controls the standards controls the world.”²⁶ China has rolled out the “China Standards 2035” plan and has outspent the United States by approximately \$24 billion in wireless

²² *Unwired Planet Int’l Ltd. v. Huawei Techs. Co.*, EWHC (Pat) 2988 [1] (Eng.), ¶495.

²³ *Take It to the Limit: Respecting Innovation Incentives in the Application of Antitrust Law*, *supra* note 10 (“Too often lost in the debate over the hold-up problem is recognition of a more serious risk: the hold-out problem.”); Andrei Iancu, Former Director of the USPTO, *Remarks delivered at the Standard-Essential Patents Strategy Conference* (Sept. 10, 2019), <https://www.uspto.gov/about-us/news-updates/remarks-director-iancu-standard-essential-patents-strategy-conference>.

²⁴ Andrei Iancu, *Under Secretary of Commerce for Intellectual Property and Director of the USPTO, Remarks delivered at the Standard-Essential Patents Strategy Conference* (Sept. 10, 2019), <https://www.uspto.gov/about-us/news-updates/remarks-director-iancu-standard-essential-patents-strategy-conference>.

²⁵ *See Apple*, 757 F.3d at 1331; *Sisvel v. Haier*, Bundesgerichtshof [BGH] [Federal Court of Justice], May 5, 2020, KZR 36/17, at 81; *Unwired Planet Int’l Ltd. v. Huawei Techs. Co.*, EWHC (Pat) 2988 [1] (Eng.), ¶495.

²⁶ RUSH DOSHI ET AL., BROOKINGS INST., *China as a “Cyber Great Power”: Beijing’s Two Voices in Telecommunications*, (Apr. 2021), at 16 (available at: <https://www.brookings.edu/research/china-as-a-cyber-great-power-beijings-two-voices-in-telecommunications/>).

Public Submission

communications infrastructure, while China's five-year economic plan calls for \$400 billion in 5G-related investment.²⁷

Simply put, the draft policy statement will give an edge to China in the standards race because, without injunctions, American companies will lose the incentive to invest in the research and development needed to lead in standards setting. Chinese companies, on the other hand, will continue to race forward, funded primarily not by license fees, but by the focused investment of the Chinese government.

9. Question 9 — The revised draft statement discusses fact patterns intended to indicate when a potential licensee is willing or unwilling to take a F/RAND license. Are there other examples of willingness or unwillingness that should be included in the statement?

Yes, there are three main examples of unwillingness to take a F/RAND license that reveal bad-faith negotiations: Actors often (1) engage in negotiation delay; (2) make unsubstantiated arguments that the offer is not F/RAND; and (3) refuse to accept court-determined F/RAND terms. Even after negotiations conclude, there may still be issues over complying with the license itself, such as refusal to submit to an audit that is necessary to show that the licensee continues to abide by its contractual obligations and that the agreed to royalty is paid.

Beginning with delay, the most common example occurs when an implementer refuses to even begin negotiations with an SEP holder. For instance, implementers can ignore notifications of infringement for years. In *Phillips v. Wiko*, Wiko did not respond to a notification about SEP infringement for two years.²⁸ Wiko is, notably, a wholly-owned subsidiary of the Chinese mobile phone manufacturer Tinno Mobil. Similarly, in *HEVC (Dolby) v. MAS Elektronik*, the Regional Court in Düsseldorf found that MAS Elektronik had not made any constructive comments to the other side and repeatedly raised questions that had already been answered.²⁹

Unsupported claims that an SEP holder's offer is not F/RAND is another frequent issue. Though genuine disagreements may exist, when implementers raise issues that have already been rejected by courts, it is apparent that these contentions are nothing more than attempts to avoid executing an agreement. In *Tagivan (MPEG-LA) v. Huawei*, negotiations took place for over six years without an agreement, with Huawei arguing that the offered terms were not F/RAND.³⁰ Absent any evidence from Huawei, the court

²⁷ Horowitz, *China is building a big advantage in the race for 5G*, CNN, Aug. 7, 2018 (available at: <https://money.cnn.com/2018/08/07/technology/5g-china-united-states/index.html>).

²⁸ *Philips v Wiko*, C/09/511922/HA ZA 16-623 (Court of the Hague, July 2, 2019, ¶¶2.2-2.3 (Neth.); see also *Philips v Wiko*, 6 U 183/16 (Karlsruhe, Oct. 30, 2019) ¶11 (Ger.).

²⁹ *HEVC (Dolby) v MAS Elektronik*, No. 4c O 44/18 (LG Dusseldorf, 7 May 2020).

³⁰ *Tagivan (MPEG-LA) v Huawei*, 4a O 17/17 (District Court of Düsseldorf, Nov. 9, 2018) (Ger.).

Public Submission

eventually found that that approximately 2,000 licensing agreements in the MPEG-LA pool demonstrated that the terms were in fact F/RAND.

Arguments have also been raised that F/RAND offers cannot be global in scope. Yet, courts in the United Kingdom (*Unwired Planet v. Huawei*) and Germany (*Sisvel v. Haier*) have stated the opposite.³¹ In short, the law is established that SEP holders do not need to make individual license offers for the terms to be F/RAND. Nonetheless, these arguments continue to be raised, showing an unwillingness to engage in good-faith negotiations.

Finally, some implementers have fully rejected court-determined F/RAND terms. Once again, the landmark *Unwired Planet v. Huawei* is instructive. After the court concluded that Huawei was infringing, Huawei argued that damages were appropriate, rather than an injunction. This case illustrates that some implementers will reject F/RAND terms because they know that damages are an easy price to pay and an insufficient remedy for patent holders. As the U.K. Supreme Court explained: “[I]f the patent-holder were confined to a monetary remedy, implementers who were infringing the patents would have an incentive to continue infringing until, patent by patent, and country by country, until they were compelled to pay royalties. It would not make economic sense for them to enter voluntarily into FRAND licenses.”³²

Relatedly, it is important to note that it is not inherently coercive to require that non-SEPs be licensed as part of the negotiation for a F/RAND-encumbered SEP license. Rather, coercion can occur on both sides of a deal. Simultaneously licensing both SEPs and non-SEPs is an accepted process that can benefit both patent holders and implementers. Each case must be analyzed on its own facts to determine whether a patent holder or implementer is acting coercively.

The timing of that analysis is also fundamental. Even after negotiations have concluded, licensees may still choose not to fulfill their contractual obligations. For example, as noted above, a licensee could choose not to submit to an audit even if explicitly required. In the same way that the absence of injunctions leads to bad-faith negotiations, the lack of effective enforcement mechanisms also undermines fulfillment of agreements. Simply put, the danger of bad-faith does not stop after a license is consummated. If patent holders are unable to protect their patents through injunctions or other mechanisms, there is no assurance that licensees will live up to their end of the bargain. Damages as a remedy would be equally insufficient in those circumstances as well.

While courts have shown a willingness to hold some bad-faith actors accountable, implementers are well-aware of tactics to avoid executing licensing agreements, and of the lack of any penalty whatever for doing so. Injunctions are the key piece in avoiding that outcome.

³¹ *Unwired Planet Int’l v. Huawei Technologies Ltd.*, [2020] UKSC, at 15; *Sisvel v. Haier*, KZR 36/17, para 78.

³² *Unwired Planet Int’l v. Huawei Technologies Ltd.*, [2020] UKSC, at 167.

Public Submission

10. Question 10 — Have prior executive branch policy statements on SEPs been used by courts, other authorities, or in licensing negotiations? If so, what effect has the use of those statements had on the licensing process, outcomes, or resolutions?

Yes, the 2013 policy statement provided an unwarranted basis for U.S. courts and other agencies to punish SEP holders simply seeking remedies for patent infringement or ensuring proper licensing terms for their hard-earned technologies. For example, the U.S. Trade Representative relied on the policy statement to overturn an exclusion order won by a SEP holder at the International Trade Commission, even though the Commission had found patent infringement after an extensive investigation. The U.S. Trade Representative’s four-page letter cited the 2013 policy statement and disapproved the ITC’s 161-page opinion without “revisit[ing] the Commission’s legal analysis or its findings based on its record.”³³ Two years later, former-Assistant Attorney General Bill Baer attributed the Trade Representative’s action to putting the 2013 Policy Statement “to good use.”³⁴

SEP holders faced new, unwarranted hurdles in foreign jurisdictions as well. For instance, the Korea Fair Trade Commission imposed sanctions and a corrective order against U.S. company Qualcomm for alleged refusal to license mobile communication SEPs.³⁵ As the Commission’s press release noted as a basis for its reason: “Major competition authorities view the act of seeking an injunction in courts based on a patent infringement claim against a willing licensee itself as a violation of competition laws.”³⁶

Similarly, following the lead of the 2013 policy statement, the European Commission conducted two investigations on the basis that an SEP holder’s request for an injunction was an abusive conduct. The European Court of Justice, however, clarified in *Huawei Technologies Co. Ltd. v. ZTE Corp., ZTE Deutschland GmbH* that a request for an injunction raises no concerns under EU competition law if the SEP holder takes specific steps.³⁷

³³ U.S. Trade Representative, *RE: Disapproval of the U.S. International Trade Commission’s Determination in the Matter of Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers*, Investigation No. 337-TA-794, https://ustr.gov/sites/default/files/08032013%20Letter_1.PDF.

³⁴ Bill Baer, Assistant Attorney General, *Reflections on the Role of Competition Agencies When Patents Become Essential*, International Bar Association Competition Conference, at 7 (Sept. 11, 2015), <https://www.justice.gov/opa/file/782356/download>.

³⁵ Korea Fair Trade Commission, *KFTC Imposes Sanctions Against Qualcomm’s Abuse of SEPs of Mobile Communications* (Dec. 28, 2016).

³⁶ Korean Fair Trade Commission, *Strict Sanctions on Qualcomm’s Abuse of Cellular SEPs*, Press Release (Dec. 28, 2016) (unofficial translation available at: <https://www.qualcomm.com/media/documents/files/kftc-issued-press-release-dated-december-28-2016-unofficial-english-translation.pdf>).

³⁷ See European Commission, *Antitrust: Commission Accepts Legally Binding Commitments by Samsung Electronics on Standard Essential Patent Injunctions* (Apr. 29, 2014); Case C-170/13, ¶¶ 63, 65-7 (July 16, 2015);

Public Submission

The risk of disadvantaging SEP holders in other jurisdictions is real as well. Chinese courts have recently signaled their willingness to exercise jurisdiction over international SEP disputes, as seen in their grants of anti-suit injunctions (which prevent a party from pursuing parallel litigation in another jurisdiction) such as in *Conversant v. Huawei*³⁸ and *InterDigital v. Xiaomi*.³⁹

While previous draft policy statements in this area were an effort by the Department of Justice and others to influence court decisions and the direction of the law when it comes to remedies for SEP infringement, the law is now more consistent and should not be disturbed. A growing consensus of courts have agreed that injunctions should be available to remedy all patent infringement, including of SEPs. The draft policy statement's attempt to disrupt the current, settled law will only create uncertainty and empower foreign competitors.

11. Question 11 — Are there resources or information that the U.S. government could provide/develop to help inform businesses about licensing SEPs subject to a voluntary F/RAND commitment?

Yes, the process leading up the development of this draft statement has been rushed. The process began without a confirmed Assistant Attorney General for the Antitrust Division and there is still not a confirmed Director of the U.S. Patent and Trademark Office or Undersecretary for Commerce overseeing the National Institute of Standards and Technology. Public hearings are necessary to take into full account the uncertainty of issuing yet another policy on this subject in such a short time period.

A key part of those hearings and further discussions must be the national security implications of a further shift in patent enforceability policy. Our future safety depends on continued U.S. leadership in areas like 5G and artificial intelligence. Policies that undermine the enforceability of patent rights disincentivize the substantial private sector investment necessary for research and development in these areas. Without that investment, development of these key technologies will begin elsewhere—likely China. Before any policy is accepted, key national-security stakeholders in the U.S. government should be asked for their official input.

A more robust process will not only help ensure that any statement properly reflects the law, it will also foster more stability and trust among the industry and licensee holders whose businesses will be integral to the economy of the future.

* * *

see also Thomas Vinje, THE LAW REVIEWS, *The Intellectual Property and Antitrust Review: European Union* (July 15, 2021), <https://thelawreviews.co.uk/title/the-intellectual-property-and-antitrust-review/european-union>.

³⁸ [2018] EWHC 808 (Pat).

³⁹ District Court (Landgericht) Munich, judgment dated 25 February 2021, Case-No. 7 O 14276/20.

Public Submission

The Innovation Alliance thanks the Department for its consideration of these comments. We believe that revision of the 2019 policy is unnecessary and that the issuance of a new policy will only create uncertainty for industry in an attempt to upset settled law. To the extent that any revision discourages the use of injunctions to prevent infringement of SEPs, it will also discourage the substantial and risky investment in research and development needed for the United States to remain at the forefront of the technological leadership.

Sincerely,

Brian Pomper

Brian Pomper
Executive Director
Innovation Alliance