Avenue des Arts 56 - 1000 Brussels - Belgium
T. +32 46 020 1811
information@fair-standards.org
www.fair-standards.org

4 February 2022

FSA Submission re 2021 DOJ/USPTO/NIST SEP Policy Statement

The Fair Standards Alliance ("FSA") supports adoption of the Department of Justice, United States Patent and Trademark Office, and National Institute of Standards and Technology's (collectively, "Agencies") Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments ("2021 Statement"). Our members encompass a broad range of organizations with interests in standard setting and fair, reasonable, and non-discriminatory ("FRAND") licensing, including contributors of technology to standard-development organizations ("SDOs"), holders of significant portfolios of standard-essential patents ("SEPs"), and producers of innovative products that use industry standards.

Our members significantly contribute to innovation worldwide. Annually, the aggregate turnover of FSA members is more than $2.5 trillion, and in aggregate our members spend more than $160 billion on R&D and innovation. FSA members have more than 500,000 patents, including SEPs, that are either granted or pending. A list of the approximately fifty FSA members can be found at https://fair-standards.org/members/.

The 2021 Statement is a welcome step to clarify the U.S. government's positions on these important issues. We thank the Agencies for the opportunity to provide our views on the 2021 Statement and, guided by the topics the Agencies address in their questions, set them forth below.

Emerging technologies like 5G, the Internet of Things, and artificial intelligence have the potential to play a critical role in President Biden's plan to promote innovation in the American economy.[1] But for such technologies to realize their full potential, it is vital that the underlying standards that support their adoption can be used by all interested stakeholders on reasonable terms. All manufacturers—large and small—must have fair access to these industry standards to produce the jobs, revenue, and innovation that power the American economy and maintain its leadership role globally. Therefore, the Administration needs to ensure a fair and balanced framework for licensing SEPs when patent holders commit to license them on FRAND terms.

[1] *See* Exec. Order No. 14036, 86 Fed. Reg. 36987 (July 9, 2021).

The 2019 Policy Statement Should Be Revised and Replaced

We strongly support revising and replacing the 2019 Statement. We believe that the 2021 Statement addresses SEP licensing and remedies in a more accurate and balanced manner, and reflects the important and growing role played by standards in promoting innovation in emerging technologies like 5G, the Internet of Things, and artificial intelligence.

As a DOJ official acknowledged in a recent speech, "no policy statement should favor—or be perceived to favor—particular stakeholders or business interests."[2] But that is what the 2019 Statement does, particularly when it is used to "[promote] the use of injunctions or [International Trade Commission] exclusion orders to remedy SEP infringement."[3] By contrast, the 2021 Statement recognizes the risks of opportunistic conduct through the threat of exclusion by SEP holders as well as the limitations on injunctive relief present in U.S. patent case law.

Revision and replacement of the 2021 Statement is also important because the 2019 Statement incorrectly asserted that a flaw of the 2013 Statement it replaced was that it "may [...] have been misinterpreted to suggest that antitrust law is applicable to F/RAND disputes."[4] But that statement is incorrect. Indeed, DOJ already has set aside the prior Administration's approach to F/RAND disputes by recognizing the bipartisan consensus that "antitrust can and should play a role when the standards-setting process is used to thwart competition and harm consumers"[5] and the FTC continues its mandate to "serve as a backstop to monitor and enforce against conduct in the standard-setting context that harms competition."[6]

---

[2] Jeffery Wilder, Economics Director of Enforcement, U.S. Dep't of Justice, *Leveling the Playing Field in the Standards Ecosystem*, Address at the IAM & GCR Summit on Standard Essential Patents at 9-10 (Sept. 24, 2021), https://www.justice.gov/opa/speech/file/1437421/download ("Wilder Speech").

[3] *Id.*; 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), https://www.justice.gov/atr/page/file/1315291/download (relying on the 2019 statement to assert that "[d]enying essential patent holders access to injunctive relief has the potential to lessen returns for inventors and thereby to harm incentives for future innovation"); Alexander Okuliar, Deputy Ass't Att'y Gen., U.S. Dep't of Justice Antitrust Div., *Promoting Predictability and Transparency in Antitrust Enforcement and Standards Essential Patents* at 10, Remarks to the Telecomm. Indus. Ass'n (Dec. 8, 2020), https://www.justice.gov/opa/speech/file/1344721/download ("Before issuing [the 2019] statement, we heard from several different stakeholders that there was real confusion about the United States' view on whether injunctive relief was available to standards-essential patent owners. The Policy Statement provides a clear answer [...] Patent owners have a right to exclude others from using their invention, and an important part of that right is the ability to get an injunction when licensing negotiations break down.").

[4] U.S. Dep't of Justice & U.S. Pat. & Trademark Off., *Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments* at 4 n.9 (Dec. 19, 2019), https://www.justice.gov/atr/page/file/1228016/download ("2019 Statement").

[5] Wilder Speech at 5.

[6] Rebecca Slaughter, Commissioner, Fed. Trade Comm'n, *SEPs, Antitrust, and the FTC*, Remarks at the Intellectual Property Rights Policy Advisory Group Meeting at 2 (Oct. 9, 2021),

The 2021 Statement Properly Recognizes the Risks of "Opportunistic Conduct" by SEP Holders and Should Label It SEP Holdup

The Agencies were asked to consider revising the 2019 Statement "to avoid the potential for anticompetitive extension of market power beyond the scope of granted patents, and to protect standard-setting processes from abuse."[7] The 2021 Statement makes significant strides towards accomplishing that goal by recognizing that "opportunistic conduct by SEP holders to obtain, through the threat of 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." The 2021 Statement also properly recognizes that FRAND commitments are intended to ensure that SEP holders "will not exercise any market power obtained through standardization."[8]

The Agencies should go one step further, however, and label this risk SEP holdup. By specifically using the term "holdup" to describe licensing conduct by SEP licensors that exploits market power gained from standardization, the Agencies can differentiate what the 2021 Statement describes as "opportunistic" conduct by licensors from what it also calls "opportunistic" conduct by licensees. They are differently situated in fundamental respects. As the 2021 Statement recognizes, absent compliance with the FRAND licensing commitment, licensors inappropriately can call on market power gained by standardization in dealing with licensees. But a licensee lacks a similar ability to harness market power to achieve its ends in a negotiation. Moreover, as the 2021 Statement explains, enhanced damages are available to remedy willful infringement by SEP licensees, should it arise, as is the case in all patent infringement actions.[9]

Using the term holdup to describe opportunistic licensor conduct would be consistent with the bipartisan manner in which the U.S. government agencies have long addressed this issue. For example, the DOJ and FTC warned in 2007 of the "potential for 'hold up' by the owner of patented technology after its technology has been chosen by the [Standard Setting Organization] as a standard and others have incurred sunk costs which effectively increase the relative cost of switching to an alternative standard."[10] And high switching costs may allow SEP holders "to hold

---

https://www.ftc.gov/system/files/documents/public_statements/1598103/commissioner_slaughter_ansi_102921_final_to_pdf.pdf.

[7] Exec. Order No. 14036, 86 Fed. Reg. 36987 §5(d) (July 9, 2021).

[8] 2021 Statement at 4.

[9] *See* Brian J. Love & Christian Helmers, *An Empirical Test of Patent Hold-Out Theory: Evidence from Litigation of Standard Essential Patents* 31, Santa Clara Univ. Legal Studies Research Paper 31 (Oct. 26, 2021) (finding there exists "little evidence that the licensing frictions proposed by theory are indeed associated with the occurrence of hold-out, particularly in the context of pre-litigation licensing negotiations"), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3950060.

[10]. U.S. Dep't of Justice & Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* at 35 (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-

up firms wishing to implement the standard by setting higher royalties and less favorable licensing terms than it could have done before the standard was set.[11] Moreover, the DOJ has recognized the validity of the economic foundation for concerns regarding SEP holdup along with proof of its occurrence.[12]

The 2021 Statement Properly Recognizes the Risk of Holdup from ITC Exclusion Orders and the Agencies Should Enhance that Discussion

The 2021 Statement correctly observes, "[a]s a general matter, consistent with judicially articulated considerations, monetary remedies will usually be adequate to fully compensate a SEP holder for infringement."[13] District court actions that award compensation are fully able to do so, while the ITC cannot award monetary remedies and instead is limited to issuing exclusion orders that prohibit importation of infringing products.[14] Accordingly, SEP injunctions in district court and ITC exclusion orders should continue to be very rare. Although the 2021 Statement discusses the ITC and notes that its issuance of exclusion orders is subject to consideration of the public interest, the Agencies could enhance the 2021 Statement by addressing the unique holdup risk posed by ITC proceedings.[15]

The need is particularly acute because, even after the 2013 Statement, the ITC demonstrated a willingness to issue an exclusion order for a FRAND-committed SEP.[16] That determination was subsequently disapproved by the U.S. Trade Representative citing the 2013 Statement and concerns regarding "the effect on competitive conditions in the U.S. economy and the effect on U.S. consumers."[17]

But the ITC's lack of due regard for the potential harms from SEP exclusion orders remains, raising continued concerns about SEP holdup through exclusion orders.[18] These concerns remain even

---

and-federal-trade-commission/p040101promotinginnovationandcompetitionrpt0704.pdf ("*Promoting Innovation*").

[11] *Promoting Innovation* at 35.

[12] Letter from Renata B. Hesse, Acting Ass't Att'y Gen., U.S. Dep't of Just. Antitrust Div., to Michael A. Lindsay, Dorsey & Whitney LLP at 6-7 n.28 (Feb. 2, 2015), https://www.justice.gov/atr/page/file/1386871/download ("The economic bargaining model underlying claims of hold up has been studied extensively and applied to the standards-setting context [...] [L]itigated cases demonstrate the potential for hold up when owners of RAND-encumbered standards-essential patents make royalty demands significantly above the adjudicated RAND rate.").

[13] 2021 Statement at 8.

[14] 19 U.S.C. § 1337.

[15] 2021 Statement at 7 n.15.

[16] *In re Certain Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, & Tablet Computers*, Inv. No. 337-TA-794, 2013 WL 12410037, Comm'n Op., (July 5, 2013).

[17] Letter from Michael B. G. Froman, Ambassador, Exec. Off. of the President, to Hon. Irving A. Williamson, Chairman, U.S. ITC at 2-3 (Aug. 3, 2013), https://ustr.gov/sites/default/files/08032013%20Letter_1.PDF.

[18] *E.g.*, *In re Certain LTE- & 3G-Compliant Cellular Communications Devices*, Inv. No. 337-TA-1138, 2020 WL 2468756, Analysis & Findings with Respect to Recommendation on the Pub. Int., & Recommendation on Remedy & Bond (Apr. 3, 2020) (finding no infringement but observing in the alternative based on the 794 Investigation that

though Section 1337 requires the ITC to assess the effect of each exclusion order on "competitive conditions in the United States economy" and on United States consumers[19] and "seek advice and information" from the DOJ and other appropriate agencies.[20] The 2021 Statement from the DOJ, USPTO, and NIST of the competitive harms caused by SEP exclusion orders will thus be a critical input into both the ITC's consideration of future SEP investigations and the Presidential review process.[21] An unambiguous position by the Agencies on exclusion orders will provide the most guidance and do so in a manner consistent with the goal of Executive Order 10436 to "avoid the potential for anticompetitive extension of market power beyond the scope of granted patents, and to protect standard-setting processes from abuse."[22]

The 2021 Statement Properly Recognizes the Fluid Dynamics of License Negotiations

The 2021 Statement takes the proper approach to providing guidance on negotiations for SEP licenses by recognizing that "good-faith negotiation can be accomplished in more than one way" and that it is impossible to provide an "exhaustive" description of good-faith.[23] An overly-rigid approach that prescribes a formulaic set of back-and-forth steps for parties to perform in a negotiation does not reflect the dynamics of real-world negotiations. Such formulaic requirements can also be misused in an effort to show the purported unwillingness of a party because it did not perform a prescribed step.

The fluidity needed to successfully negotiate complex SEP licensing agreements also means the Agencies should not prioritize "efficiency" over other attributes designed to promote widespread SEP licensing without explaining its meaning. "Efficiency" could be interpreted to imply that the goal of SEP policy is simply to minimize transaction costs, not to protect consumer welfare. Licensing by a monopolist capable of unilaterally setting terms can be an efficient process in terms of transaction costs even if consumers ultimately bare the cost of the supercompetitive rates. "Fairness," by contrast, better represents the complex interests that advance consumer welfare, such as promoting innovation and lowering product costs. In addition, we recommend the June 2019 CEN/CENELEC Workshop Agreement, *Core Principles and Approaches for Licensing of Standard Essential Patents* to the Agencies as an additional resource to help inform businesses about licensing FRAND-committed SEPs.[24]

Further, the Agencies should adopt an intellectual property rights policy that provides clarity about

---

"there is no distinction between SEPs and other patents").

[19] 19 U.S.C. § 1337(d)(1).

[20] 19 U.S.C. § 1337(b)(2).

[21] 19 U.S.C. § 1337 (j)(2).

[22] Exec. Order No. 14036, 86 Fed. Reg. 36987 §5(d) (July 9, 2021).

[23] 2021 Statement at 5 n.7. Any comparison to the Court of Justice of the European Union's (CJEU) decision in *Huawei v. ZTE* would not be apt. That decision sets forth a standard to determine when seeking an injunction on a FRAND-committed SEP violates EU competition law. It is not a guide to the complexities of licensing negotiations. See *Huawei Technologies Co. Ltd v. ZTE Corp.*, ¶ 60, Case C-170/13 (July 16, 2015), https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:62013CJ0170&from=EN.

[24] https://2020.standict.eu/sites/default/files/CWA95000.pdf.

the nature of the SDO's FRAND commitment to acknowledge that an SDO "can promote licensing" as well as the broad adoption of standards, not just "licensing efficiency."[25] The IEEE Standard Association's adoption of an updated Patent Policy in 2015 is an example. Although a vocal minority of companies focused on SEP licensing continues to critique the policy, it has been a success as demonstrated by the increased productivity and innovation at IEEE[26] and the recent overwhelming support for maintaining the policy.[27]

***

We appreciate the opportunity to be heard on these important subjects and applaud the Agencies for developing an accurate, balanced, and timely statement. We support the adoption of the 2021 Statement and request that the Agencies consider the suggestions provided above.

***

Members of the Fair Standards Alliance include:

Aira	airties	Amazon
Apple	BMW	Bullitt
Bury	Cisco	Continental
Crosscall	Daimler	Dell

[25] 2021 Statement at 7.

[26] IPlytics, *Empirical Analysis of Technical Contributions to IEEE 802 Standards* at 3 (Jan. 2019), https://www.iplytics.com/wp-content/uploads/2019/01/IEEE-contribution-anaylsis_IPlytics-2019.pdf (concluding that since the adoption of the updated Patent Policy in 2015, "the IEEE has continued to prosper in its development of technical standards, and that companies are in fact expanding their technical engagement with, investments in, and support for IEEE's standards development processes").

[27] Report to IEEE SA Board of Governors (Nov. 15, 2021), https://grouper.ieee.org/groups/pp-dialog/call_for_comments/PatCom_report_to_IEEE_SA_BoG_151121_1350.pdf (consolidating comments on the 2015 Patent Policy: organizations in favour of maintaining the current policy outnumbered comments urging modifications by more than five to one).

Denso	Deutsche Telekom	Emporia
Fairphone	Ford	Google
Gramm, Lins & Partner	Harman	Hitachi
Honda	HP	Hyundai
Intel	Juniper	Kamstrup
Landis+Gyr	Lenovo	Microsoft
N&M Consultancy	Nordic Semiconductor	Sagemcom
Sequans	Sierra Wireless	Sky
Tech Law Associates	Telit	Tesla
Thales	Titan	Tomtom
Toyota	u-blox	Valeo
Visteon	Volkswagen	Xiaomi

For further information about FSA, please see http://www.fair-standards.org/.

NOTE: The positions and statements presented in this submission do not necessarily reflect the detailed individual corporate positions of each member.