

February 4, 2022

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RE: *Comments of ACT | The App Association on the Draft Policy Statement on Licensing
Negotiations and Remedies for Standards-Essential Patents Subject to F/RAND
Commitments*

ACT | The App Association represents thousands of small business innovators located throughout the United States, who drive competition and innovation across consumer and enterprise use cases. Our members are part of an economy worth more than \$1.7 trillion annually and that provides for over 5.9 million American jobs. The App Association supports your mission at the U.S. Department of Justice (DOJ), U.S. Patent and Trademark Office (USPTO), and National Institute of Standards and Technology (NIST) to jointly provide guidance promoting good-faith standard-essential patent (SEP) licensing negotiations and the scope of remedies available to patent owners that agreed to license their essential technologies on fair, reasonable, and non-discriminatory (FRAND) terms. Your efforts are integral to President Biden's strategy and vision for economic growth in the United States, and we support withdrawal of the prior administration's 2019 *Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments* (2019 Policy Statement) and replacement of the 2019 Policy Statement with one that promotes competition and innovation. This new statement should build on the 2013 *Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments* (2013 Policy Statement).

The world changed significantly after the issuance of the 2013 Policy Statement. In 2013, the perception of SEP licensing was only as a communications sector concern. Now, use of SEPs has expanded into the automotive and smart energy sectors. Today, it is spreading further and further across internet of things (IoT) markets. It also is clearer now that U.S. government policies that fail to clearly limit injunctions and exclusion orders for FRAND-encumbered SEPs benefit foreign companies, to the detriment of the American small businesses the App Association represents. It is critical for the U.S. government to ensure that FRAND-encumbered SEPs serve their intended purpose—to preserve, protect, and promote competition and innovation, rather than to stifle them. The Biden administration’s strategy requires taking steps to ensure American innovators can design and manufacture products that realize the benefits of emerging technologies like 5G, IoT, and artificial intelligence.

The previous administration’s policies encouraged SEP asserters to seek injunctions and exclusion orders to block standards users from participating in markets for their innovative products. These policies invited SEP asserters to avoid the commitments they voluntarily made to license their patented technologies included in a standard on FRAND terms. Among other problems, the prior administration’s 2019 Policy Statement (1) disregards that injunctions on FRAND-encumbered SEPs should be rare, if available at all under the four-factor analysis of the U.S. Supreme Court’s *eBay Inc. v. MercExchange LLC* decision, because SEP owners voluntarily agree to license anyone using the standard; (2) ignores the need to similarly align exclusionary remedies at the U.S. International Trade Commission (ITC) with the scope of the voluntary FRAND licensing commitment; (3) improperly suggests that antitrust law never applies to breaches of FRAND licensing commitments; and (4) promotes a biased perspective that prioritizes SEP holders that monetize their patents over other downstream innovators and SEP owners. Indeed, the 2019 Policy Statement has even been used to argue that injunctions are always available for FRAND-encumbered SEPs.

We applaud and support your new draft policy statement, which represents a much-needed shift in policy towards a balanced and pro-competitive approach which acknowledges 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” (Draft Policy Statement at 4). The new draft recognizes, consistent with OMB Circular A-119, the procompetitive benefits of voluntary collaborative standard-setting activities, and the need to balance those benefits against the anticompetitive risks associated with standard setting, including opportunities to assert SEPs to hold-up users locked into a specific standard. We also strongly support a new DOJ-USPTO-NIST policy statement recognizing that strong limits for exclusionary remedies based upon the FRAND commitment are necessary to protect against competitive harm caused by the adoption of a standard that chooses just one set of technical solutions among what would otherwise be competing options. Further, we support the draft policy statement reinforcing that standards-setting organizations (SSOs) can and should develop and adjust patent policies to best meet their particular needs, consistent with the DOJ’s recent restoration of DOJ’s 2015 IEEE Standards Association Business Review Letter.

The draft policy statement also appropriately states that “[w]here a potential licensee is willing to license and able to compensate a SEP holder for past infringement and future use of SEPs subject to a voluntary F/RAND commitment, seeking injunctive relief in lieu of good-faith negotiation is inconsistent with the goals of the F/RAND commitment” (Draft Policy Statement at 4). We appreciate your recognition that injunctions for FRAND-committed SEPs should be rarely available, if at all, under the standard set forth for injunctive relief in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006). In almost all, if not all, cases monetary compensation through damages at law is a sufficient remedy for infringement of such SEPs by users of the relevant standard, and the nature of the FRAND commitment generally precludes irreparable harm. Indeed, injunctive relief has never been awarded for FRAND-committed SEPs under *eBay*. We believe that injunctions for FRAND-committed SEPs would only be appropriate, if at all, where the defendant is bankrupt, or a defendant refuses to pay a FRAND royalty awarded in a final judgment of a U.S. court. Absent these circumstances, it is inappropriate to leverage injunctive relief in licensing negotiations, when the SEP holder forswore to use such leverage when making a FRAND licensing commitment.

We offer the following further input on the draft DOJ-USPTO-NIST policy statement:

- **We strongly encourage a deeper discussion of how the FRAND commitment protects *ex ante* competition, including an exploration of the relationship between SEP licensing negotiations, antitrust law, and potential remedies.** Accordingly, the policy statement should describe how seeking injunctions on FRAND-encumbered SEPs represents an anticompetitive exploitation of the leverage a SEP holder has over entire markets of innovators who rely on technical interoperability standards to compete. Similarly, the statement should describe how certain SEP holders exploit ambiguities introduced into the standards and SEP licensing ecosystems by the last administration, such as systematic refusals to provide licenses to reasonable and willing parties seeking licenses, based on arbitrary characterizations and metrics. Such a discussion would provide further needed clarity to small businesses that rely on the FRAND commitment to innovate, ultimately promoting U.S. interests in competition and innovation.
- **We request that the new policy statement clarify that the alleged SEP “hold-out” theory perpetuated by the previous administration has no evidentiary basis.** The previous administration’s theory characterizes the outcomes of negotiations where the licensee disagrees with demands unilaterally set by the SEP assertor as harmful. In those few cases where the licensee is acting maliciously and unreasonably, the courts can fully compensate an SEP holder for willful infringement as it would any patent holder, including by awarding interest to compensate the patent holder for any delay in realizing payment for infringed patents. App Association small business members would benefit from understanding that their efforts to understand and engage in a complex SEP licensing negotiation process is not “holding out,” particularly in light of the harm to competition SEP hold-up causes and how courts are already equipped to address the overstated concerns of those promoting the flawed “hold-out” theory. Equating hold-up and “hold-out” gives certain SEP licensors to use abusive tactics to attain supra-FRAND terms in a SEP licensing negotiation with small businesses.

- **DOJ, USPTO, and NIST should clarify that exclusion orders issued by the ITC on SEPs should also be rare because of their negative effects on competition and licensing negotiations.** We appreciate the draft policy statement noting that, as part of the International Trade Commission's (ITC's) authority to issue exclusion orders under 19 U.S.C. § 1337, the ITC must consider the effect of "exclusion upon the public health and welfare, ...and United States consumers" (Draft Policy Statement at FN 15). We see continued growth in SEP holders seeking ITC exclusion orders on claimed SEP infringements. Seeking exclusion orders in this manner clearly violates the FRAND commitments those SEP holders have voluntarily placed on their SEP(s), and such anticompetitive behavior is even the subject of ongoing litigation today. See *Koninklijke Philips v. Thales Usa Inc et al.*, 1:20-cv-01709 (Delaware District Court); *In re Certain UMTS and LTE Cellular Communications Modules & Products Containing the Same*, No. 337-TA-1240. Such exclusion orders should only issue under the public interest factors set forth in 19 U.S.C. § 1337(d)(1) if the defendant is not subject to the jurisdiction of a U.S. court that could award FRAND royalties for the use of a valid and infringed SEP, or bankruptcy, or refusal to pay following a final judgment as listed above. Otherwise, as the draft statement provides in the context of injunctions in federal courts, exclusion orders are used to leverage a SEP owner's power in licensing negotiations beyond what is contemplated by the FRAND licensing commitment. Indeed, the new policy statement should recognize that the U.S. Trade Representative rejected the ITC's last exclusion order based on infringement of a FRAND-encumbered SEP because the exclusion order did not accord with the 2013 Policy Statement. Whether in the form of an injunction or an exclusion order, prohibitive orders pose an outsized risk of forcing App Association small businesses to design around open standards or to abandon entire product lines.
- **We request that the new policy statement further clarify that, like all patent holders, SEP holders bear the burden of proving their patents infringed and must withstand any validity or enforceability challenges before any entitlement to infringement remedies.** Small businesses already face immense difficulties in bearing the costs of challenging patents asserted against them. Such a clarification in the new policy statement would provide further support for the draft policy statement's appropriate assertion that "a potential licensee should not be deemed unwilling to take a F/RAND license if it agrees to be bound by an adjudicated rate determined by a neutral decision maker; if it reserves the right to challenge the validity, enforceability, or essentiality of the standards-essential patent in the context of an arbitration or F/RAND determination; or if it reserves the right to challenge the validity or essentiality of a patent after agreeing to a license" (Draft Policy Statement at 9).
- **We urge the new policy statement to directly reject the primacy of "efficiency" in licensing negotiations to the extent that it favors monetizing SEPs over the antitrust interests in limiting monetization strategies.** Valuing efficiency over fairness, transparency, balance, and other interests would put App Association small business members at a heightened disadvantage as they lack resources as to compared to SEP licensors. We urge you to continue to reject the privileging the benefits of patent rights over the competitive harms that result from abusive licensing conduct. Further, the new policy statement should reject the previous administration's erroneous assertion that SEP holders may recover lost profits for infringement of a FRAND-encumbered SEP.

- **We agree that good-faith negotiation that leads to widespread and efficient licensing between SEP holders and those who seek to implement technologies subject to F/RAND commitments helps to promote technology innovation, further consumer choice, and enable industry competitiveness.** We agree that any good faith SEP holder approaching a potential licensee should provide sufficient explanations and bases for each SEP so that the potential licensee can readily assess whether it needs to take a license, and, if so, whether the licensor's offer complies with the SEP owner's FRAND obligation; and that, after taking necessary steps to determine that a SEP license should be taken, the potential licensee should provide confirmation that it is willing to negotiate a SEP license in good faith and on FRAND terms, while also reserving the ability to fully challenge essentiality, validity, and infringement claims.

Once negotiations commence, it is critical that the SEP holder continue to act in good faith and alignment with the FRAND commitment. Therefore, we encourage the policy statement to endorse the idea that potential licensees should be entitled to obtain, without any pre-conditions or demands for secrecy, details regarding the alleged basis and support for the patent holder's SEP licensing demands to fairly and transparently assess whether a licensing proposal is FRAND. A lack of transparency makes it particularly difficult for App Association small businesses that are potential licensees to evaluate the terms on which they should consider concluding a FRAND license. The informational disadvantages can easily (1) give rise to non-FRAND outcomes; (2) interfere with the FRAND public interest function; and (3) impede the ability to determine whether SEP licenses are available on terms that are demonstrably compatible with FRAND (a problem often exacerbated in cases where SEPs are transferred to third parties such as patent assertion entities). App Association small businesses face a significant challenge when incurring costs in assessing the SEP holder's claims (either privately or in court), very often resulting in their acquiescence to a non-FRAND license. To the extent the policy statement discusses good faith behavior, it should clarify that SEP holders must be open and transparent about the rates they seek to charge for their SEPs, what patents are licensed, and their basis for believing that the patents are actual, valid SEPs. Many from our community that develop IoT products often do not have the expertise or resources to sufficiently address SEP issues, particularly when the SEP is asserted as part of a portfolio of patents, and need access to information necessary to verify whether SEP asserters are complying with FRAND terms and conditions.

We recognize that parties may voluntarily elect to keep certain items confidential as part of normal commercial practice. However, certain information that enables the assessment of FRAND compliance and generally facilitates FRAND license negotiations should not require confidentiality.

To the extent that the new policy statement addresses good faith behavior in SEP licensing scenarios, we urge DOJ, USPTO, and NIST to maintain the ability of parties to fully challenge the essentiality, validity, and infringement claims, while also acknowledging that preserving such rights should not constitute a lack of good faith. Given patents are jurisdictional in nature, the new policy statement should recognize that a potential licensee should not be compelled to participate in worldwide FRAND adjudications (i.e., a rate-setting exercise for a broad portfolio license), such as by being threatened with an injunction if the licensee does not agree to a worldwide license. Moreover, we agree that parties may, in the event negotiations fail, mutually agree to mediate/arbitrate to determine the merits of the patents at issue and FRAND licensing terms. Likewise, in the arbitration context, which may require the waiver of a party's due

process rights and right of access to the courts, seeking to compel a portfolio determination or to impose penalties if such a procedure is not agreed to would be improper and counter to existing laws and rights.

The above recommendations are consistent with the Executive Order's guidance to protect standard-setting processes from abuse. We look forward to working with you to improve and finalize the policy statement and congratulate you on taking this important step towards that goal in issuing this draft.

Respectfully Submitted,



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