

## Memorandum

Date: December 10, 2024

To: President-Elect Donald Trump  
Policy Advisor

From: ACT | The App Association

Re: Promoting a Competitive Standard-Essential Patent Landscape

ACT | The App Association believes that clear guidance is needed to prevent foreign entities and their adversaries from holding technical standards hostage by way of anticompetitive standard-essential patent (SEP) licensing practices. Standards support U.S. small business innovation in emerging technology and provide American consumers with ample low-cost market alternatives.

American innovation in emerging technology often involves the inclusion of consensus-based and industry-led technical standards, such as 5G and Wi-Fi. These standards have been applied to critical internet of things (IoT) and artificial intelligence (AI) solutions while impacting a broad range of industries, including automotives and healthcare. The goal of establishing technical standards is to provide an efficient and interoperable base for technology developers to create new inventions across multiple market sectors. When patent holders choose to contribute their technologies to a technical standard, they understand and agree that their patents may be needed to enable reasonable access to the standard and provide standard-setting organizations (SSOs) with a commitment that they will license their SEPs on fair, reasonable, and non-discriminatory (FRAND) terms to balance the anticompetitive risks associated with standard setting. Therefore, by contributing to the standardization process, a SEP holder understands and agrees to not unduly exclude competitors from a standard past requiring a FRAND license.

The App Association maintains that the following principles underlay a universal understanding of the FRAND commitment:

1. **The FRAND Commitment means all can license** – A holder of a FRAND-committed SEP must license that SEP to all companies, organizations, and individuals who use or wish to use the standard on FRAND terms.
2. **Prohibitive orders on FRAND-committed SEPs should only be allowed in Rare circumstances** – Prohibitive orders (including federal district court injunctions and U.S. International Trade Commission exclusion orders) should not be sought by SEP holders or allowed for FRAND-committed SEPs except in rare circumstances where monetary remedies are not available.
3. **FRAND royalties** – A reasonable rate for a valid, infringed, and enforceable FRAND-committed SEP should be based on the value of the actual patented invention itself to the smallest saleable patent practicing unit, which is separate from purported value due to that patent's inclusion in the standard, hypothetical downstream uses, or other factors unrelated to invention's value.

4. **FRAND-committed SEPs should respect patent territoriality** – Patents are creatures of national law, and courts should respect the jurisdiction of foreign patent laws to avoid overreach with respect to SEP remedies. Absent agreement by both parties, no court should impose global licensing terms on pain of a national injunction.
5. **The FRAND commitment prohibits harmful tying practices** – While some licensees may wish to get broader licenses, a SEP holder that has made a FRAND commitment cannot require licensees to take or grant licenses to other patents not essential to the standard, invalid, unenforceable, and/or not infringed.
6. **The FRAND commitment follows the transfer of a SEP** – As many jurisdictions have recognized, if a FRAND-committed SEP is transferred, the FRAND commitments follow the SEP in that and all subsequent transfers.

#### **I. *SEP Licensing Abuse Is Harming The United States' Leading Patent System***

The United States has the leading global patent system due to its strong emphasis on developing mechanisms that support innovation and foster competition and technological progress. Technical standards provide an alternative path to modern invention that differs from general exclusive patenting. The goal of establishing technical standards is to create an efficient and interoperable foundation for technology development that can be used by any industry participant who is willing and able to fairly compensate the relevant SEP holder. The SEP holder understands and agrees that, by contributing to the standardization process, it cannot unduly exclude competitors from a standard past requiring a FRAND license.

Opportunistic SEP holders have distorted this system by taking advantage of SSO policies that have ambiguous definitions of FRAND to manipulate a fair licensing negotiation process by, for example, overcharging or refusing to license to certain entities in a supply chain. Since SSOs facilitate access to technical standards that touch various industries, these opportunistic SEP holders plague many verticals, always looking for the next market to extract additional and unrelated value for their SEP. The anticompetitive harms experienced in the SEP licensing ecosystem disrupt fair usage of technical standards that support efficient innovation.

#### **II. *Foreign Companies Use Their SEPs Against U.S. Companies***

It has become increasingly evident that foreign SEP holders are able to harm U.S. businesses and U.S. consumers through SEP licensing disputes, extracting billions of dollars out of the U.S. economy. Companies such as Huawei, Nokia, Ericsson, and Abu Dhabi-backed Fortress Investment Group continue to use the U.S. International Trade Commission (ITC) and foreign courts against U.S. businesses that are locked-in to key technical standards (e.g., 5G and Wi-Fi).

The ITC provides foreign entities that hold U.S. patents with the opportunity to bypass equitable tests in U.S. courts that determine if an injunction is appropriate by providing an exclusion order as the sole remedy. Ericsson and Nokia are avid users of the ITC to initiate SEP disputes against American companies, including Amazon and Apple. Similarly, these entities have used foreign courts, including the newly established Unified Patent Court (UPC), to seek injunctions and apply pressure to U.S. companies that are willing to conclude a FRAND-encumbered SEP license.

Some of these foreign companies stack their SEPs for key technical standards in foreign patent

pools that shield its members from individual FRAND obligations and disincentivize its members from licensing outside the highly inflated pool royalty rate. For example, Huawei holds a majority of the SEPs covering the 5G standard, which are licensed through the patent pool, Sisvel. This pool often uses German courts, known to award injunctions prior to determining a patents' validity, to litigate their SEP disputes. These decisions have enabled (and emboldened) foreign SEP holders to systematically abuse their dominant market position as a gatekeeper to the use of the standard to attain supra-FRAND terms (a practice known as "hold-up" <sup>1</sup>).

Where hold-up practices are stronger, U.S. inventors have less of an incentive to invest significant resources into patentable developments that are likely to be targeted by monetization schemes enforcing older, broader, and potentially invalid patents. While the U.S. patent landscape includes important mechanisms to combat issuing expansive patent claims and enables entities to challenge such patents post-issuance, many overly broad patents still exist and are ripe for abuse.<sup>2</sup> One recent example of this was revealed in a case between the State of Washington and "patent troll" Landmark Technology A, where internal litigation communications revealed bad faith licensing tactics, such as the targeting of nearly 1,200 different companies across 18 months using an extremely broad and likely enforceable patent, demanding \$65,000 in licenses fees.<sup>3</sup> Even without a credible threat of an injunction, many of the targeted small companies across diverse industries ultimately settled to avoid costly litigation fees.<sup>4</sup>

SEP licensing abuse is often supported by third-party litigation funding (TPLF), a mechanism used to abuse patent process in the United States and internationally against U.S. companies. Non-practicing entities (NPEs) initiate a majority of the abusive and frivolous patent infringement suits in the United States<sup>5</sup> and many NPE suits are financially backed by unnamed investors hidden through shell corporations or wealth funds that may have a real interest in the outcome of litigation.<sup>6</sup> TPLF has affected critical U.S. technology industries, including telecommunication, automotives, and semiconductors. Funders may be individual entities seeking economic gain or competing countries strategically undermining essential U.S. industries and U.S. national security. The availability of anonymous investment sources enables bad actors to flood adjudicating bodies with potentially illegitimate claims. Abu Dhabi-backed Fortress Investment Group has been identified numerous times as an undisclosed funder of patent holders initiating frivolous disputes in the United States.<sup>7</sup>

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<sup>1</sup> Lemley, Mark A. and Shapiro, Carl, Patent Holdup and Royalty Stacking. 85 Texas Law Review 1991 (2007).

<sup>2</sup> See 35 U.S.C. 101; see Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat.(2011).

<sup>3</sup>See Declaration, *State of Washington v. Landmark Technology A LLC*, NO. 2:21-cv-00728-RSM (W.D. Wash 2022), ECF No. 97; see also Dani Kass, Law360, *Wash. Urges Federal Court To Set Bad Faith Test For IP Cases* (April 23, 2024), <https://www.law360.com/articles/1827562/wash-urges-federal-court-to-set-bad-faith-test-for-ip-cases>.

<sup>4</sup> Office of the Attorney General of Washington, *AG Ferguson files lawsuit against "patent troll" targeting small businesses* (May 14, 2021), <https://www.atg.wa.gov/news/news-releases/ag-ferguson-files-lawsuit-against-patent-troll-targeting-small-businesses>.

<sup>5</sup> Love, Brian J. and Lefouili, Yassine and Helmers, Christian, *Do Standard-Essential Patent Owners Behave Opportunistically? Evidence from U.S. District Court Dockets* (November 8, 2020), 17, [https://www.tse-fr.eu/sites/default/files/TSE/documents/doc/wp/2020/wp\\_tse\\_1160.pdf/](https://www.tse-fr.eu/sites/default/files/TSE/documents/doc/wp/2020/wp_tse_1160.pdf/).

<sup>6</sup> See *In re Nimitz Technologies LLC*, No. 23-103 (Fed. Cir. 2022); see also <https://www.unifiedpatents.com/insights/2023/2/21/litigation-investment-entities-the-investors-behind-the-curtain>.

<sup>7</sup> <https://news.bloomberglaw.com/business-and-practice/fortress-billions-quietly-power-americas-biggest-legal-fights>.

### **III. *China Has Empowered Its Domestic Businesses To Weaponize SEP Licensing Against American Companies***

China has already demonstrated its willingness to weaponize the standards and intellectual property (IP) systems to disadvantage the American economy, national security, and American companies (e.g., its mandating the use of the WLAN Authentication and Privacy Infrastructure (WAPI) Chinese national standard to undermine Wi-Fi and restrict access to the Chinese market<sup>8</sup>). Recognizing how easily a SEP holder can make FRAND promises and then later obfuscate and disregard them, a growing number of companies, including those controlled by foreign adversaries, namely China—have turned SEP licensing into a business that, at its base, is predation of good faith American innovators and small companies who simply need to use standardized solutions to interoperate and compete. Unfortunately, many of their efforts have been successful. Today's framework of SEP laws and policies, both in the United States and abroad, allow foreign adversaries and their proxies that hold key SEPs to abuse their market position by, for example, enabling the locking out of U.S. competitors from entering entire markets.

The SEP licensor abuse playbook is well-practiced. SEP abuses that have taken place in telecommunications markets for well over 20 years are now finding their way into new verticals where connectivity is being built into consumer and enterprise products, such as automotive and medical. Such unchecked practices already translate to limited availability and higher prices for Americans (to the benefit of foreign adversaries and their proxies), undermining a core goal for the Trump-Vance Administration.

SEP abuses also represent one of the most glaring vulnerabilities to U.S. supply chains for critical and emerging technologies, presenting an economic and national security imperative. As a prime example, SEP licensing abuses are occurring in automotive supply chains where some SEP holders in wireless communication standards refuse requests for FRAND licenses from reasonable and willing licensees. Instead, the SEP abusers are arbitrarily insisting on licenses from the end product (the vehicle) in order to extract unrelated value beyond the components that function from the SEP, leaving suppliers in supply chains unable to license their components and indemnify their customers against SEP infringement claims. The net result has been to introduce preventable uncertainties and disruptions to these supply chains, undercutting important safety and sustainability goals, as well as U.S. economic and national security interests. This result has forced manufacturers in mature supply chains, such as in the automotive industry, to revert to using earlier versions of wireless communications standards (e.g., 3G or 4G for telematic control units) and limit the number of alternative suppliers to choose from to support a resilient supply chain. Due to inaction by the Biden-Harris Administration, foreign adversaries and their proxies (such as state-controlled enterprises and strawman SEP pools) are well positioned to exploit and shut down U.S. supply chains.

Notably, courts in foreign markets are being leveraged to solidify controlling roles in critical U.S. supply chains. Disruptions to supply chains caused by SEP licensor abuse are being perpetuated by foreign courts, including in China, that have concluded that they can force a standards user to accept global FRAND terms on pain of a national injunction. The precedent set by such decisions has (1) emboldened Huawei to abuse their dominant market position in key telecommunication standards; and (2) encouraged other foreign SEP holders to similarly harm American economic and national security interests by excluding competitors and

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<sup>8</sup> <https://actonline.org/2016/03/17/mobile-mythbusting-wifi-wapi-and-the-encryption-debate/>.

disrupting mature supply chains.

### **A. Government-Backed Chinese Enterprise Huawei Deploys Strategic Efforts to Corner and Exploit the Market for SEPs in Connectivity Standards**

Founded in 1987, Huawei is a prominent company in the global telecommunications market for its sale of network equipment and devices, with demonstrated links to the Chinese government and military. Since 2000, Huawei's origins and behavior have given rise to serious national and economic security concerns for the U.S. government.<sup>9</sup> In 2019, the U.S. Department of Commerce added Huawei to its Entity List, a decision that effectively banned the company from buying parts and components from U.S. companies without U.S. government approval. As also noted by CRS, the first Trump Administration imposed, and the Biden Administration upheld, Huawei-related restrictions and tightened restrictions on sales of semiconductors for 5G devices.

Already holding more than 22,000 granted patents in the United States, Huawei has positioned itself as prominent aggressor against U.S. companies, including leading American telecommunications company Verizon. Notably, Huawei has transferred 766 3GPP-related patent assets to a new non-practicing entity that is publicly noting its intent to target U.S. companies.<sup>10</sup> Huawei is a long-time abuser of the standards system by way of anticompetitive SEP licensing practices leveraged directly by the SEP holder or through patent pools. Huawei has demonstrated its willingness to target and pack critical standards like 5G (where it is the clear leading holder of claimed SEPs), positioning itself to exert disproportionate control over significant industries that incorporate connectivity into products.

Huawei has been front and center for a many major international SEP disputes around the world, including the United States:

- Huawei has targeted **Tesla** in SEP lawsuits in the United Kingdom where it has sought to have the UK courts impose global terms (including for the United States), even though only 7 percent of the relevant patents were UK patents.<sup>11</sup>
- Since 2022, Huawei has sued the **Stellantis** automotive group (Fiat, Opel, Peugeot, and Citroën) in the German court system alleging SEP infringement, significantly disrupting automotive supply chains.<sup>12</sup> Auto manufacturer Continental has detailed the impacts of SEP abuses on the industry.<sup>13</sup>
- Huawei has utilized the Munich division of the EU's newly established Uniform Patent Court (UPC) to pressure American companies **NETGEAR** and **Amazon** into excessive licensing fees. The Munich division is particularly attractive to opportunistic SEP holders like Huawei for its tendency to apply a German approach to SEP disputes with the power to award an injunction that applies across 18 EU Member States.<sup>14</sup> **NETGEAR** was

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<https://crsreports.congress.gov/product/pdf/R/R47012/2#:~:text=For%20more%20than%20two%20decades,its%20expansion%20globally%2C%20and%20the>

<sup>10</sup> <https://www.iam-media.com/article/huawei-transfers-766-3gpp-related-patent-assets-new-npe>.

<sup>11</sup> <https://www.law360.co.uk/articles/2267824>.

<sup>12</sup> <https://www.lexology.com/library/detail.aspx?q=b6466f6d-b998-4e85-a96c-de3e06da7719>.

<sup>13</sup> <https://www.regulations.gov/comment/USTR-2023-0014-0040>.

<sup>14</sup> <https://ipfray.com/new-huawei-v-netgear-filings-discovered-in-munich-and-upc-interim-conference-to-take-place-next-week-wifi-6-seps/>.

forced to sue Huawei in California federal court under a civil Racketeer Influenced and Corrupt Organizations Act (RICO) claim in response to Huawei's UPC suit weaponizing its SEPs to obstruct U.S.-based NETGEAR from complying with international standard

- Huawei's established strategy includes weaponizing jurisdictions abroad where injunctions on SEPs can be improperly attained,<sup>15</sup> including Brazil where Huawei has already made 1,794 patent applications since 2018.<sup>16</sup>

The above examples are only what is known from public reporting, and Huawei's activities, emboldened by a lack of U.S. leadership in SEP/FRAND licensing policy, reach far deeper and wider. They are not publicly disclosed, however, because of the high percentage of legal disputes that settle and because Huawei, like many other foreign SEP licensors, insist on overly broad non-disclosure agreements that prohibit revealing their abusive terms. Further, to shield itself from SEP abuses, Huawei has committed thousands of its SEPs to Sisvel SEP patent pools for key technology areas including Wi-Fi, cellular IoT, and others.<sup>17</sup> Sisvel, an EU-based patent pool operator, enables Huawei to separate itself from notorious SEP licensor abuses.

*Further background/critical information:*

- "From sanctions to success: Huawei's novel strategy – IP licensing" <https://www.fierce-network.com/wireless/sanctions-success-huaweis-novel-strategy-ip-licensing>

***B. The Trump-Vance Administration Should Protect American Economic And National Security Interests Against Foreign Adversaries Like Huawei, Who Are Increasingly Abusing Their SEP Holder Positions To Exclude Competitors And Disrupt Key Supply Chains In Order to Further The Interests Of Foreign Adversaries***

The United States has the means to deter SEP-related threats to American economic and national security, and should take the following steps:

- **Establish an Administration policy** that FRAND royalties are based on the intrinsic value of the patented technology, not the cost of market exclusion. This policy should reinforce key case law, such as the U.S. Supreme Court's *eBay v. MercExchange* ruling, which limits injunctions to protect U.S. innovation from bad-faith patent holders. Additionally, the policy should strengthen mechanisms like the Patent Trial and Appeal Board (PTAB) to enable the challenge of vague or invalid patents and prevent frivolous enforcement.
- **Increase antitrust enforcement** and leverage sanctions, tariffs, and other **restrictions** against entities that abuse SEPs, holding technical standards hostage and harming American businesses, consumers, and supply chains.
- **Implement measures to limit foreign abuse** in SEP licensing by holding foreign entities, like Huawei and its adversaries, accountable for unfair practices, ensuring that SEP holders adhere to FRAND commitments, and preventing the exploitation of U.S. markets through anti-competitive licensing strategies.

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<sup>15</sup> <https://www.iam-media.com/article/inside-huaweis-americas-ipr-department>.

<sup>16</sup> <https://www.iam-media.com/article/the-top-chinese-patent-holders-adding-brazil-their-strategic-maps>.

<sup>17</sup> <https://www.sisvel.com/news/huawei-joins-sisvel-cellular-iot-patent-pool/>.