Comments of Public Interest Patent Law Institute to

U.S. Patent and Trademark Office
National Institute of Standards and Technologies
U.S. Department of Justice Antitrust Division

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

Submitted February 4, 2022

The Public Interest Patent Law Institute (“PIPLI”) is grateful for the opportunity to provide comments in response to the Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments issued by the Department of Justice (“DOJ”), the U.S. Patent and Trademark Office (“USPTO”), and the National Institute of Standards and Technology (“NIST”) (collectively, the “Agencies”) on December 6, 2021 (hereinafter “Draft”).

Introduction

PIPLI is a nonprofit, nonpartisan public interest organization dedicated to ensuring the patent system promotes innovation and access for the benefit of all members of the public. Most Americans depend on access to patented technology but do not participate directly in the patent system—among them, research scientists, software programmers, small businesses, patients, and doctors. As a result, the interests of these constituencies are inadequately represented in the institutions that decide the course of patent law. This lack of representation makes it more difficult for the patent system to appropriately balance incentivizing private investment and protecting public access to knowledge.

PIPLI works to improve the patent system’s ability to strike a fair and effective balance for all members of the public. To enhance public representation in the patent system, PIPLI conducts policy research; engages in educational outreach; advocates for greater transparency, ethics, and equity in the patent system; and represents the public’s interest before institutions that shape patent law and policy, including courts, agencies, and standard-setting organizations.

The conduct of licensing negotiations and resolution of disputes involving standards-essential patents subject to F/RAND commitments (“SEPs”) concretely affects the lives and livelihoods of countless Americans and people around the world who rely on standardized technology to earn a living, access medical care, and communicate with each other. As such, PIPLI respectfully urges the DOJ, USPTO, and NIST to give the public’s interest the full and fair consideration it deserves.

General Comments

The Draft is a dramatic improvement over the 2019 Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments (“2019 Policy Statement”). PIPLI
incorporated into the standard utilizing specific technology, compliant devices
Ericsson, Inc. v. D cases involving standard essential patents, we have endorsed standard compliance as a way of proving infringement.

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

Yes, the 2019 Policy Statement should be revised because the approach it endorses disproportionately benefits a relatively small number of powerful patent licensing entities while harming numerous Americans who depend on standardized technologies, including to monitor life-threatening health conditions and work remotely during the COVID-19 pandemic.

The 2019 Policy Statement vitiates the force of F/RAND commitments, eroding their ability to prevent abusive SEP licensing practices. When patent owners make F/RAND commitments, they promise to license their patents to anyone willing to pay a fair and reasonable rate. In exchange, technology their patents cover can be included in the standard. In other words, SEP owners exchange their right to exclude others from using their patents for the opportunity to include their patented technology in the standard. By making this exchange, SEP owners give up their right to obtain injunctions or exclusion orders against entities who are willing to pay fair and reasonable licensing rates to use their patents as part of the standard.

They are also getting a powerful benefit: the right to assert their patents against and demand payment from anyone who makes, uses, sells, offers to sell, or imports standards-compliant products or services. Unlike owners of patents that are not essential a standard, SEP owners can recover monetary damages for infringement without proving the accused products fall within the scope of their patent claims. Instead, they need only prove that their patents are essential to the standard with which the accused products comply. This gives SEP owners a substantial advantage over potential defendants that other patent owners do not have.

Once a standard is defined, the benefits SEP owners get from inclusion are irrevocable. SEPs cannot be excluded from a standard post facto if owners violate their F/RAND commitments by demanding unfair, unreasonable, or discriminatory licensing terms. The only protection technology makers and users get comes from the assurance the F/RAND commitment is

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1. *E.g., Godo Kaisha IP Bridge 1 v. TCL Commc'n Tech. Holdings Ltd.*, 967 F.3d 1380, 1383 (Fed. Cir. 2020) (“In cases involving standard essential patents, we have endorsed standard compliance as a way of proving infringement.”); *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1209 (Fed. Cir. 2014) (Because a “standard requires that devices utilize specific technology, compliant devices necessarily infringe certain claims ... cover[ing] technology incorporated into the standard.”).
supposed to provide. If SEP owners have the unfettered right to obtain injunctions and exclusion orders, their F/RAND commitments become meaningless. That makes technology makers and users extremely vulnerable to abusive licensing demands, which imperils their access to standard-essential technology.

The 2019 Policy Statement needs to be revised because it disproportionately benefits companies that rely on SEP licensing revenue at the expense of manufacturers, retailers, and consumers who rely on access to standardized technology. This unbalanced approach harms the public by suppressing rather than spurring technological innovation, market competition, and economic growth.

2. **Does the draft revised 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?**

The draft revised statement makes substantial improvements toward appropriately balancing the interests of patent holders and implementers, but the balance of interests should also include those of people who depend on standardized technologies in their daily live, including for employment, education, communication, transportation, and health care.

Patent law requires consideration of the public’s interest. As the Supreme Court has long recognized the patent system is “designed to serve the public purpose of promoting the ‘Progress of Science and useful Arts,’” and “[t]he far-reaching social and economic consequences of a patent . . . give the public a paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope.” *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945) (emphasis added).²

Accordingly, the test for injunctive relief set forth in *eBay Inc. v. MercExchange, L.L.C.* includes the public’s interest as one of the four factors that courts must balance. The public interest factor precludes patent owners from automatically obtaining injunctions or the negotiating leverage they confer. To the contrary, “[w]hen the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.” 547 U.S. 388, 396–97 (2006).

Given the staggering number of patents declared essential to today’s technical standards, the purported invention claimed in a particular SEP (or family of SEPs) is almost necessarily a small component of the product that consumers use. For example, more than 160,000 patents have been declared essential to European Telecommunications Standards Institute (“ETSI”) standards.³ Under *eBay*, legal or monetary damages are often more than sufficient to

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³ Baron, Justus and Pohllmann, Tim, *Mapping Standards to Patents using Databases of Declared Standard-Essential Patents and Systems of Technological Classification*, September 2015, available at:
compensate patent owners, even when, unlike SEP owners, they have not committed to making licenses available for reasonable monetary fees.

The public, however, does not participate in licensing negotiations, court litigation, or arbitration proceedings involving SEP owners and companies seeking to make or sell standardized technology. Consequently, the public’s interest often receives little to no consideration.

To make up for the lack of public participation and representation in negotiations and disputes involving SEPs, the final policy statement should identify public interest factors that parties, courts, and arbitrators should consider when assessing infringement remedies. For example, if the products at issue are telemicine devices that people rely on to send or receive medical information, the public interest in ensuring those devices remain accessible and functional should weigh heavily against injunctive relief or exclusion orders.

3. **Does the draft revised 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?**

The Draft addresses some of the competition concerns about the potential for the extension of market power beyond the appropriate patent scope identified in the July 9, 2021 Executive Order, but should go further in addressing “the welfare of workers, farmers, small businesses, startups, and consumers.” For example, as discussed above, the final statement can and should identify public interest factors for consideration when assessing infringement remedies to ensure the welfare of these constituencies is protected. Because these groups do not directly participate in negotiating licenses or assessing remedies, guidance from the DOJ, NIST, and USPTO to ensure consideration of their welfare is crucial.

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

We have consistently observed the significant and destructive impact the possibility of injunctive relief has on negotiations involving SEPs subject to F/RAND commitments. The

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final statement should explicitly state that the concerns surrounding injunctive relief apply equally to ITC exclusion orders and district court injunctions.

The final statement should also address a possibility we have observed that is frequently overlooked: that an SEP owner will engage customs enforcement mechanisms, including of non-U.S. governments, to seize products in transit to or the possession of an American company’s customer. Although under-discussed, this pressure can and often does add powerful undue pressure to SEP licensing negotiations.

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

Other challenges are present in negotiating a SEP license—particularly, challenges arising from the staggering number of patents declared essential to a standard, the number of SEPs in individual licensors’ portfolios, the lack of clear, objective, or reliable information showing whether and how SEPs are in fact essential to complying with a standard, and the lack of clear, objective, or reliable information showing that SEPs would be found valid if challenged in court or administrative proceedings.

Even though SEP owners have greater access to information about the essentiality and validity of their patents, potential licensees overwhelmingly bear the burden of these challenges. Licensees must decide between trying to get more information from SEP owners, investing substantial time and money to obtain such information independently, or simply assuming that all declared SEPs are essential and not invalid, despite the strong probability that either or both of these assumptions are incorrect.\(^6\)

At the outset of negotiations, licensors should provide information, such as claim charts, detailing how their SEPs are essential to particular aspects of a standard. They should also provide information identifying all patent claims in their portfolio (including in pending patent applications) which they deem essential to the standard such that a license is required. This information will increase the efficiency and fairness of licensing transactions by shifting the

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burden of establishing essentiality to licensors, who should already have such information in their possession, and reducing licensees’ uncertainty as to which patent claims are at issue and should therefore be assessed for invalidity.

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?

The inefficiencies involved in licensing SEPs disproportionately harms small business owners, their employees, and customers.

Small businesses that cannot afford to spend millions of dollars on patent lawyers and experts to assess essentiality and invalidity face a substantial disadvantage compared to their larger rivals and SEP licensors. Small businesses must choose between paying unreasonably high license rates or paying exorbitant sums on legal fees to negotiate for reasonable rates. Regardless of the choose they make, the result is the same: diverting resources from productive activities that advance innovation and benefit the American economy—like product research and employee salaries.

Because big companies operating at a massive scale can afford to invest in legal fees and benefit financially from doing so, they can obtain favorable licensing terms that yield larger profit margins than smaller rivals and new entrants. That means the competitive disadvantages that small and emerging businesses face grows in direct proportion to the burden that potential SEP licensees bear.

Requiring SEP owners to identify the patent claims they seek to license and specify how they are essential to the relevant standard will substantially reduce asymmetries that disproportionately harm small businesses as well as their employees and customers. There is little to no cost in shifting this burden to SEP owners, who should already have information about which of their patent claims are essential to a given standard and why.

Enhancing public access to SEP adjudications can also make SEP licensing negotiations more efficient. Unfortunately, many SEP licenses require dispute resolution in closed arbitration proceedings rather than open court. As a result, findings of non-essentiality or invalidity resulting from such proceedings are not made public. This makes SEP licensing negotiations less efficient and more costly for potential licensees. When one licensee proves non-essentiality or invalidity in arbitration, other licensees should not be forced to expend additional resources to do the same. Because many small businesses cannot afford to spend limited resources on expensive litigation, this lack of transparency makes them especially vulnerable to licensing demands premised on non-essential or invalid patent claims.

Requiring SEP owners to disclose non-essentiality and invalidity findings made in non-public proceedings would increase efficiency and fairness. There would be no need to reduplicate proceedings or for small businesses to pay for licenses to non-essential or invalid patents.
7. **Will the licensing considerations set forth in the draft revised Statement promote a useful framework for good-faith F/RAND licensing negotiations?**

The licensing considerations set forth in the Draft will promote a more useful framework for negotiations than the 2019 Policy Statement. The framework can be further improved, for example, by:

- identifying additional factors that indicate good faith during licensing negotiations, such as identifying all relevant patent claims and providing claim charts showing how each asserted claim is essential to the relevant standard;
- identifying factors that indicate bad faith during licensing negotiations, such as refusing to participate in negotiations, refusing to pay the same terms as similarly situated licensees, refusing to grant licenses to certain companies or industries, and requiring licensees to forebear from challenging or contributing to challenges to the essentiality or validity of the licensor’s SEPs; \(^7\) and
- identifying public interest factors that should weigh against district court injunctions and exclusion orders, such as the gravity of the public’s need for access to the standardized technology.

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

As is, the Draft will provide assurance to standards-setting organizations (“SSO’s”) that have sought to provide clarity by articulating specific considerations for royalty rate determinations and the inconsistency between F/RAND commitments and requests for an injunction or exclusion order against a licensee willing to pay on fair and reasonable terms. For example, following the 2019 Policy Statement, the Institute of Electrical and Electronics Engineers (“IEEE”) has commenced a review of provisions of its patent policy providing such clarity. \(^8\) We hope the Draft will help convince the IEEE that those provisions of its patent policy can and should remain in place.

9. **The draft revised 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?**

Factors indicative of willingness should include (1) participating in negotiations, (2) making an offer or counter-offer of a license that is comparable to the rates paid by similarly situated competitors, if the potential licensee is aware of any such rates.

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\(^7\) The Supreme Court has held “no challenge” provisions unenforceable for non-SEP patent licenses. See Studies have also shown the anticompetitive impact these provisions can have. See

Factors indicative of unwillingness should include (1) refusing to participate in negotiations and (2) and/or refusing to make any offer or counter-offer that is comparable to the rates paid by similarly situated competitors, if the potential licensee is aware of any such rates. Factors indicative of unwillingness should not include (1) challenging the essentiality or validity of asserted SEP claims or (2) challenging the licensor’s offer as unfair, unreasonable, or discriminatory.

To the extent the Draft discusses examples of willingness or unwillingness, it should include examples of abusive SEP licensing practices, such as engaging (or threatening to engage) customs and border authorities to seize products in transit to or the possession of a potential licensee’s customers.

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?

Courts routinely use the FTC and DOJ’s Antitrust Guidelines for the Licensing of Intellectual Property (“IP Licensing Guidelines”) in cases involving SEPs. Although they are not binding, courts have described these guidelines as “a helpful tool.”

Because licensing negotiations are typically confidential and open only to the negotiating parties, we are not aware of how prior executive branch policy statements on SEPs have been used in the course of actual negotiations.

Similarly, because SSOs typically make decisions in closed meetings, we are not aware of how SSOs have used prior executive branch policy statements on SEPs in setting or revising their policies.

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?

The U.S. government can and should provide and develop tools to help inform businesses and technology developers about licensing SEPs. In particular, we urge the government to create a centralized repository of information about SEP license rates and terms so that courts, parties,

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10 E.g., United States v. Anthem, Inc., 855 F.3d 345, 349 (D.C. Cir. 2017); Steves & Sons, Inc. v. JELD-WEN, Inc., 988 F.3d 690, 704 (4th Cir. 2021) (citing id.).
arbitrators, experts, and scholars can make accurate observations and determinations about F/RAND rates and SEP licensing markets.

The European Commission’s Group of Experts on Licensing and Valuation of Standard Essential Patents (“SEPs Expert Group”) has offered a proposal of this type, which would require “parties to SEP licence agreements to submit these agreements (or specified key provisions of such agreements) to a market transparency office . . . for building and maintaining a strictly secret repository of SEP licence agreements, solely for use by courts, competition authorities and possibly arbitration/expert boards and other trusted persons to be agreed upon . . . for pre-defined purposes, including (i) assessing the value of FRAND licensing offers, (ii) determining the FRAND value of SEP licences, and (iii) determining whether there is any unjustified discrimination.”

While we agree with the SEPs Expert Group that members of the public would not need access to the license agreements themselves, particular pieces of information—e.g., license rates—could and should be made available to members of the public without revealing the identities of the parties to the underlying agreement.

**Conclusion**

Products and services that comply with heavily patented technical standards are increasingly essential to the daily lives of Americans and people around the world. SEP licensing practices concretely affect the accessibility and affordability of technology people need to earn a living, get an education, access health care, and communicate freely with each other. Members of the public beyond the parties to SEP licensing negotiations and disputes have a compelling interest in ensuring such proceedings are as efficient, fair, and transparent as possible. PIPLI commends the DOJ, NIST, and USPTO on the positive changes they have made in the Draft and recommends that the final statement articulate the public’s interest in these changes more fully and expressly.

Respectfully submitted,

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