

April 22, 2019

The Honorable Wilbur Ross
Secretary of Commerce
U.S. Department of Commerce
1401 Constitution Ave., NW
Washington, District of Columbia 20230

The Honorable Andrei Iancu
Under Secretary of Commerce for Intellectual
Property and Director of the United States
Patent and Trademark Office
United States Patent and Trademark Office
600 Dulaney Street
Alexandria, Virginia 22313

RE: Sustainable American Innovation and Standards Policy; Established US Law & Policy
Supporting Innovation; Concerns with December 7, 2018 DOJ AAG Statements

Dear Secretary Ross and Under Secretary Iancu:

We write to address suggestions that USPTO consider withdrawal from the 2013 “Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments” (2013 Policy Statement). As a number of our signatories explained in their January 31, 2019 letter to the agencies, we oppose the USPTO withdrawing from the 2013 Policy Statement, as that statement reflects sound, tested and longstanding American law and policy.¹ We write now to respond to two letters sent to the agencies by four companies active in SEP licensing and allied trade associations on March 15 and March 18, 2019.

Our signatories help fuel the American innovation economy. Collectively, we represent over \$100B annually in R&D spending across a range of industries. We own hundreds of thousands of patents, including many standard essential patents (SEPs). We employ more than 50 million Americans, and contribute trillions of dollars to annual United States GDP. Many of our signatories are headquartered in the U.S., and others have extensive U.S. operations. We also include many small business signatories, who deserve to compete and innovate on a level playing field. Our companies both develop and use standards, and we also innovate on top of standards to create products and services that are widely used across the US economy, providing a balanced perspective to these issues. We request your support in continuing longstanding U.S. policy to promote the development and utilization of technical standards, as well as to incentivize stakeholders to innovate on top of standardized technologies.

On December 7, 2018, Assistant Attorney General Delrahim announced that the Antitrust Division was withdrawing its assent to the 2013 Policy Statement.² Many of us previously have written to the DOJ to raise issues with the AAG’s suggestions to alter decades of American policy, across Republican and Democratic administrations.³ Even recently-confirmed Attorney General Barr himself testified to the

¹ See Multi-Association Letter to Secretary Ross and Under Secretary Iancu, available at <http://www.ipwatchdog.com/wp-content/uploads/2019/03/Multi-Assn-Ltr-re-DOJ-USPTO-Policy-Statement-013119.pdf>.

² <https://www.justice.gov/opa/speech/assistant-attorney-general-makan-delrahim-delivers-remarks-19th-annual-berkeley-stanford>.

³ See Industry Letter to AAG Delrahim Regarding Standards, Innovation and Licensing, available at <http://www.ccianet.org/wp-content/uploads/2018/01/Industry-Letter-to-DOJ-AAG.pdf>; Multi-Association White Paper on Standards, Licensing and Innovation, available at https://www.ftc.gov/system/files/documents/public_comments/2018/08/ftc-2018-0055-d-0031-155033.pdf. These industry concerns are echoed on a bi-partisan basis by former agency leaders, economists and academics. See Academic and Former Regulator Letter to AAG Delrahim Regarding Speeches on Patents and Holdup, available at <https://www.competitionpolicyinternational.com/wp-content/uploads/2018/05/DOJ-patent-holdup-letter.pdf>.

USPTO expressing concerns that abusive injunctions can harm innovation and the economy.⁴ SEP abuse is a real, well-documented problem that discourages innovation. American courts and agencies recognize that abusive practices by SEP owners threaten the fair and robust competition that leads to innovation.⁵

For the avoidance of doubt, we have no issue with a SEP owner that seeks reasonable compensation based on the value of the patented technology it voluntarily contributed for use in a standard like LTE, Ethernet, or Wi-Fi, and otherwise follows its FRAND obligations. But SEP owners should not be relieved of their voluntary commitments to license. Where there are disputes about the applicability or value of SEPs, US district courts are fully capable of providing full and fair recourse to SEP holders that seek fair compensation for infringement of their patented inventions without the use of injunctions or exclusion orders. The unwarranted availability of exclusionary remedies inherently provides SEP owners the leverage to appropriate value that may be unrelated to their invention. This is the well-documented real-world problem of hold-up that results because in the case of SEPs, as noted in the Joint Statement, “it may be prohibitively difficult and expensive to switch to a different technology within the established standard or to a different standard entirely.”

Furthermore, there is no evidence that the 2013 Policy Statement has been detrimental in any way to innovation, as is suggested in the March 15 and March 18 letters. In fact, innovation has thrived in the US since the release of the 2013 Statement, with the top 300 US companies increasing their R&D expenditures by 44% from 2012 to 2017 according to the PwC 1000 Innovation Study.⁶ The number of patent filings has also increased significantly, rising by 13% over that same timeframe.⁷

Contrary to the suggestions made to the agencies in the March 15 and March 18 letters, the 2013 Policy Statement is entirely consistent with existing US law, including the Federal Circuit’s *Apple v. Motorola* opinion. Consistent with *Apple*, the 2013 Policy Statement expressly recognizes that SEPs are not subject to an absolute bar to injunctive relief, such as where “a putative licensee is not subject to the jurisdiction of a court that could award damages.” While in *Apple*, the court correctly noted it would be “difficult” for a SEP owner to establish irreparable harm (as per the rule in the *eBay* case) given its promise to license, it also recognized that there might be situations where a SEP holder could potentially be entitled

⁴ See May 26, 2010 Transcript, *PTO/DOJ/FTC Hearings on The Intersection of Competition Policy and Patent Policy: Implications for Promoting Innovation*, available at https://www.ftc.gov/sites/default/files/documents/public_events/evolving-ip-marketplace/transcript-2.pdf, pp. 159 et seq (“[O]nce an industry has made massive investments itself in a technology covered by the patent, then the amount that the industry would be willing to pay to avoid shutting down completely are all the switching costs to retrofit its business to avoid the infringement. It no longer bears any relationship to the economic value of the patent that’s being asserted.... And the amount that a company caught in that position is willing to pay, again, is grossly excessive and ends up hurting innovation”).

⁵ See, e.g., *Broadcom v. Qualcomm*, 501 F.3d 297, 310 (3rd Cir. 2007) (“Industry participants who have invested significant resources developing products and technologies that conform to the standard will find it prohibitively expensive to abandon their investment and switch to another standard. They will have become ‘locked in’ to the standard. In this unique position of bargaining power, the patent holder may be able to extract supracompetitive royalties from the industry participants.”); Federal Trade Commission, Response to Commentators, *In the Matter of Motorola Mobility LLC and Google Inc.*, File No. 121 0120, Docket No. C-4410 (July 23, 2013) (“the breach of a FRAND commitment risks substantial harm to the competitive process and consumers. This risk justifies the [FTC] using its authority – as it has for nearly 20 years – to prevent misuse of the standard-setting process.”).

⁶ See High Tech Inventors Alliance, *An Open Letter: Innovation Is Thriving*, available at <https://www.hightechinventors.com> (citing data from 2017 Global Innovation 1000, available at <https://www.strategyand.pwc.com/innovation1000-UK>).

⁷ Compare USPTO 2012 *Performance and Accountability Report* at 70, available at <https://www.uspto.gov/sites/default/files/about/stratplan/ar/USPTOFY2012PAR.pdf> (565,406 patent filings in 2012), with USPTO 2017 *Performance and Accountability Report* at 27, available at <https://www.uspto.gov/sites/default/files/documents/USPTOFY17PAR.pdf> (647,388 patent filings in 2017).

to an injunction.⁸ Indeed, and contrary to suggestions that the 2013 Policy Statement is somehow at odds with case law, *the Federal Circuit’s opinion expressly cited and relied upon the 2013 Statement*.⁹

The two recent letters also rely on the concept of “hold out” to argue for the position that injunctions should be freely available even to SEP owners that have voluntarily committed to license essential patents. But the fact that the SEP owner and a potential licensee disagree on licensing terms does not eviscerate the SEP owner’s promise to license, and as the 2013 Policy Statement recognized, district courts are fully capable of determining and awarding FRAND compensation. Addressing the alleged issue of “hold out”, one district court wrote:

[T]he court is not persuaded that reverse hold-up is a significant concern in general, as it is not unique to standard-essential patents. Attempts to enforce any patent involve the risk that the alleged infringer will choose to contest some issue in court, forcing a patent holder to engage in expensive litigation. The question of whether a license offer complies with the RAND obligation merely gives the parties one more potential issue to contest. When the parties disagree over a RAND rate, they may litigate the question, just as they may litigate any issue related to liability for infringement.¹⁰

An injunction is not necessary to resolve SEP royalty, validity or infringement disputes and, in Attorney General Barr’s words, “is grossly excessive and ends up hurting innovation”.¹¹ Contrary to the suggestion that “hold out” is a widespread problem, the fact remains that where SEP royalty disputes have been litigated, American courts usually have determined that a FRAND royalty is far lower than the royalties the SEP owner sought.¹² In other words, courts have determined that the prospective licensee was entirely justified in refusing to agree to the SEP owner’s initial demand.

Finally, suggestions in the two letters that the 2013 Joint Statement is contrary to the WTO’s TRIPS agreement are not well-founded. As noted, SEP owners voluntarily choose to participate in standards development and to contribute their patented inventions for use in a standard. No one doubts that a patent holder may voluntarily agree to limit the scope of its patent rights by promising to license rather than exclude. Holding a patent owner to its own promise is entirely consistent with TRIPS.

⁸ *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1331-32 (Fed. Cir. 2014).

⁹ *Id.*

¹⁰ *In re Innovatio IP Ventures*, 2013 WL 5593609, at *11 (N.D. Ill. 2013).

¹¹ Well before the 2013 Policy Statement was issued, the authors of the March 18, 2019 letter themselves have argued that SEP injunctions should be precluded. We are happy to provide the agencies with examples of such statements should that be of assistance. Indeed, at least two of the companies that submitted the March 18 letter have (unlike the 2013 Policy Statement) previously taken the position that the FRAND promise entails a *blanket ban* on SEP injunctions.

¹² *See, e.g., In re Innovation*, at *44 (awarding a royalty of US\$0.0956 per unit – a tiny fraction of the royalty demanded); *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 2111217, at *101 (W.D. Wash. 25 Apr. 2013) (awarding a total royalty of approximately US\$0.04 per unit, a tiny fraction of the \$6-\$8 royalty sought).

We thank you for your considering our views, and urge you to reject calls to abandon existing and long-standing approaches to SEP law and policy.

Sincerely,

1564B

ACT | The App Association

Alliance of Automobile
Manufacturers

Apple Inc.

AT&T

Audi of America, Inc.

BadVR

Bury Technologies

Cisco Systems, Inc.

Comcast

Computer &
Communications Industry
Association (CCIA)

Computer Ways

Continental Automotive

Denso Corporation

Dogtown Media

Fair Standards Alliance

For All Abilities

Ford Motor Company

High Tech Inventors Alliance
(HTIA)

Honda Motor Co., Ltd.

HP Inc.

Intel Corporation

Juniper Networks

MotionMobs

National Retail Federation

Nordic Semiconductor ASA

Samsung Electronics Co.,
Ltd.

SentryOne

Sierra Wireless

Sigao Studios

Sky

Software & Information
Industry Association (SIIA)

SouthernDNA

Telit Communications SpA

Toyota Motor Corporation

Verizon

Visteon

Volkswagen of America, Inc.

u-blox Incorporated

cc: The Honorable William Pelham Barr, Attorney General, Department of Justice
The Honorable Jerrold Nadler, Chairman, House Judiciary Committee
The Honorable Doug Collins, Ranking Member, House Judiciary Committee
The Honorable Lindsey Graham, Chairman, Senate Committee on the Judiciary
The Honorable Dianne Feinstein, Ranking Member, Senate Committee on the Judiciary