February 6, 2014

The Honorable William J. Baer
Assistant Attorney General
Antitrust Division, Department of Justice
950 Pennsylvania Avenue, NW
Washington, D.C. 20530

The Honorable Edith Ramirez
Chairwoman
Federal Trade Commission
600 Pennsylvania Avenue, NW
Washington, D.C. 20850

Re: American Antitrust Institute's Request for Joint Enforcement Guidelines on the Patent Policies of Standard Setting Organizations

Dear General Baer and Chairwoman Ramirez,

We write to follow up on the petition that the American Antitrust Institute[1] submitted to the Department of Justice (DOJ) and Federal Trade Commission (FTC) in May 2013.[2] Our petition, which is attached along with this letter, requests that the DOJ and FTC issue joint enforcement guidelines on the patent policies of standard setting organizations (SSOs). Regardless of whether the DOJ and FTC pursue our proposal in the near term, we urge, at a minimum, that the agencies bring the proposed guidelines – with the addition to them suggested below – to the attention of leading SSOs for their consideration in the course of updating their patent policies.

The collaboration between actual and potential competitors in standard setting forums calls for vigilant antitrust scrutiny. Although standard setting has significant procompetitive potential and can benefit consumers and foster innovation through greater interoperability, it can also be a vehicle for collusion, exclusion, and other anticompetitive conduct. To protect against such anticompetitive behavior, SSOs should implement procedural safeguards. The Supreme Court has stated that SSOs that fail to establish sound processes and monitor activities under their purview may be subject to antitrust liability.[3]

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[1] The AAI is an independent non-profit education, research, and advocacy organization. Its mission is to advance the role of competition in the economy, protect consumers, and sustain the vitality of the antitrust laws. For more information, see www.antitrustinstitute.org.

[2] Am. Antitrust Institute, Request for Joint Enforcement Guidelines on the Patent Policies of Standard Setting Organizations (May 23, 2013), *available at* http://www.antitrustinstitute.org/sites/default/files/Request%20for%20Joint%20Enforcement%20Guidelines%20on%20the%20Patent%20Policies%20of%20Standard%20Setting%20Organizations.pdf.

[3] *See* American Society of Mechanical Engineers v. Hydrolevel Corp., 456 U.S. 556 (1982); Allied Tube & Conduit Corp. v. Indian Head Inc., 486 U.S. 492 (1988).

2919 ELLICOTT ST, NW • WASHINGTON, DC 20008
PHONE: 202-276-6002 • FAX: 202-966-8711
www.antitrustinstitute.org

Patent holdup is one form of anticompetitive behavior that is enabled by vague or non-existent SSO rules on participant conduct. SSOs may not define nor enforce the obligations of patent owners and, as a result, create an environment conducive to holdup activity. The owner of a patent may choose not to disclose relevant intellectual property or, alternatively, may promise to license it on "reasonable and non-discriminatory" (RAND) terms to secure the patent's inclusion in the standard. But, once the standard is adopted and commercialized, the owner of the standard essential patent (SEP) can exploit lock-in effects and demand monopolistic royalties, threatening to seek injunctions and exclusion orders to strengthen its bargaining power. Patent holdup allows the SEP owner to obtain monopoly power through opportunistic means rather than "as a consequence of superior product, business acumen, or historical accident."[4] By creating greater uncertainty about future SEP royalties, holdup also frustrates evaluations of competing technologies – and their respective technical capabilities and cost – at the adoption stage.

To reduce the threat and magnitude of harm from patent holdup, our petition asks the agencies to issue joint enforcement guidelines that offer a well-defined antitrust safe harbor to SSOs. Specifically, in the event of patent holdup over one of their standards, SSOs that adopt and enforce the following patent policies would not be the target of a DOJ or FTC enforcement action:

1. Mandatory disclosure of relevant patents as well as anticipated and pending patent applications, supported by good faith reasonable inquiry;
2. Royalty-free licensing of patents that are not disclosed in violation of disclosure obligations and consequently incorporated into a standard;
3. Commitment to license standard essential patents (SEPs) on "reasonable and non-discriminatory" (RAND) terms;
4. Prohibition on SEP owners seeking injunctions and exclusion orders against any willing licensee;
5. Stipulation that licensing commitments run with the SEP;
6. Cash-only license option for individual SEPs; and
7. Efficient, cost-effective process to resolve disputes over RAND royalty and non-royalty terms.

We also now add to our list of recommended patent policies and suggest an eighth patent policy to increase transparency over the future ownership of SEPs.

8. Mandatory disclosure of whether an SEP owner commits not to transfer the SEP to a patent assertion entity (PAE) in the future—a commitment not to transfer to a PAE, like licensing commitments, would run with the SEP.

While the problem of abusive conduct by PAEs likely has no single "magic" remedy, the patent policies recommended in our petition can be one element of a larger solution. A prohibition on injunctions and exclusion orders against any willing licensee would reduce the leverage of SEP owners – PAEs or otherwise. Injunctions and exclusion orders prohibit the sale and importation,

[4] United States v. Grinnell Corp., 384 U.S. 563, 570-71 (1966).

respectively, of the infringing products. By being unable to deprive or threaten to deprive operating companies of large revenue streams through these radical remedies, SEP owners would have less power to demand and obtain monopolistic royalties.

Stipulating that licensing commitments run with an SEP would prevent PAEs from acquiring SEPs and repudiating earlier licensing promises. As the FTC's enforcement action in Negotiated Data Solutions shows,[5] PAEs have asserted that they are not bound by pre-existing licensing commitments on acquired SEPs and sought monopolistic royalties from companies implementing the standard. Treating RAND and other ex ante licensing commitments as property-like encumbrances on an SEP would prevent PAEs and others from evading these obligations.

An efficient, cost-effective alternative to royalty and other licensing disputes can also mitigate the threat of patent holdup by PAEs. PAEs are more likely than other entities to pursue aggressive enforcement strategies, including holdup. Because they do not manufacture products and typically have very small administrative operations, PAEs do not face the risk of infringement counterclaims or burdensome discovery. At present, the costly and protracted nature of patent litigation gives many targets a strong incentive to settle claims quickly, even suits involving patents that may be found to be invalid or not infringed at trial. An effective non-judicial forum for resolving good faith licensing disputes would reduce the pressure on defendants to comply with unreasonable demands from PAEs.

The mandatory disclosure of whether a patent holder commits not to transfer SEPs to a PAE would reduce uncertainty over the implementation of standards. While patent holders should not be prohibited from transferring SEPs to PAEs, their intentions should be known to other SSO participants. Even if some PAEs honor pre-existing licensing commitments, PAEs may, in general, be more likely to engage in SEP holdup because they are not constrained by threats of counterclaims or reputational harm. A patent holder that commits not to transfer any SEPs to a PAE may have greater success in having its intellectual property included in a standard. SSO participants – in particular, companies that implement a standard – are likely to have more faith in the RAND promise of a patent holder that pledges not to transfer SEPs to a PAE.

While we commend DOJ's continuing engagement with leading SSOs over their patent policies,[6] we believe it is necessary to go further and give *all* SSOs stronger incentives to adopt and enforce sound patent policies. We would be pleased to discuss this matter further with you.

[5] Negotiated Data Solutions LLC, FTC Docket C-4234, 2008 FTC LEXIS 119 (Sept. 22, 2008).
[6] Renata B. Hesse, Deputy Ass't Att'y Gen., Antitrust Div., U.S. Dep't of Justice, At the Intersection of Antitrust & High-Tech: Opportunities for Constructive Engagement, Remarks as Prepared for the Conference on Competition and IP Policy in High-Technology Industries 14 (Jan. 22, 2014).

Respectfully,

Albert A. Foer
President
American Antitrust Institute
202-276-6002
bfoer@antitrustinstitute.org

Sandeep Vaheesan
Special Counsel
American Antitrust Institute
202-204-4524
svaheesan@antitrustinstitute.org

cc:

Commissioner Julie Brill
Commissioner Maureen Ohlhausen
Commissioner Joshua Wright
Renata Hesse