



February 4, 2022

Comments of the American Antitrust Institute on DOJ-USPTO-NIST Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to F/RAND Commitments, Docket ID No. ATR-2021-0001

The American Antitrust Institute (“AAI”)¹ applauds the Antitrust Division of the Department of Justice (“DOJ”), the U.S. Patent and Trademark Office (“USPTO”), and the National Institute of Standards and Technology (“NIST”) for setting aside their Joint 2019 policy statement and restoring two-decades of bipartisan consensus supporting a balanced approach to evaluating remedies for the infringement of standards-essential patents (“SEPs”) subject to a “RAND or F/RAND” licensing commitment.²

AAI has long urged the enforcement agencies, administrative agencies, courts, and Congress to address patent holdup resulting from anticompetitive abuses of SEPs, which can allow SEP owners to acquire market power over major parts of the information technology and communications sectors and defeat the otherwise procompetitive purpose of standards development.³

¹ AAI is an independent non-profit education, research, and advocacy organization devoted to promoting competition that protects consumers, businesses, and society. We serve the public through research, education, and advocacy on the benefits of competition and the use of antitrust enforcement as a vital component of national and international competition policy. For more information, see www.antitrustinstitute.org.

² USPTO et al., Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments (Dec. 6, 2021), <https://bit.ly/3GiG7MW> [hereinafter “2021 Draft Statement”]. A “RAND or F/RAND” commitment is a promise to license SEPs on reasonable and non-discriminatory terms, or fair, reasonable and non-discriminatory terms, respectively. *Id.*

³ *See, e.g.*, Letter from Richard M. Brunell & Diana L. Moss, Am. Antitrust Inst., to Hon. Makan Delrahim, Asst. Att’y Gen., Antitrust Div., U.S. Dep’t of Just. (Mar. 15, 2019), *available at* <https://bit.ly/34vOac4>; Am. Antitrust Inst., Request for Joint Enforcement Guidelines on the Patent Policies of Standard Setting Organizations (May 23, 2013), *available at* <https://bit.ly/3KUecGq>; Brief of Amici Curiae Am. Antitrust Inst. et al. in Support of Petition for Writ of Certiorari, *Fed. Trade Comm’n v. Rambus Inc.*, 555 U.S. 1171 (2009) (No. 08-694), <https://bit.ly/3Gj29z3>.

AAI agrees with the comments submitted by Prof. Michael Carrier, Prof. Mark Lemley et al., and Prof. Jorge Contreras in this proceeding.⁴ Among other things, those scholars note that the current draft policy statement (1) is balanced because it considers the potential abuses on both sides of the negotiating table, whereas the 2019 statement inaccurately suggested ‘patent holdout’ is a problem but patent holdup is not⁵; (2) improves upon prior statements by providing an elaborate framework for good-faith negotiations, including with regard to resolving disputes over what a FRAND commitment means⁶; and (3) offers an approach to remedies that reflects the caselaw, including by following the common-sense *eBay* rule that a patent owner who voluntarily commits to license patents on F/RAND terms generally has no need to seek injunctive relief.⁷

AAI submits these comments to assign the proposed draft policy statement its proper place in the history and development of federal competition policy toward remedies for anticompetitive SEP abuses. The draft policy statement should be recognized as a return to a carefully forged path. It is a necessary and proper course correction after an activist detour from 2017-19.

AAI also urges the USPTO, DOJ, and NIST to strengthen the draft policy statement in two ways. First, the draft policy statement should recognize the deceptive nature of holdup in the standard-setting context and the legal consequences that follow accordingly. Second, it should directly acknowledge the important qualitative differences between holdup and holdout.⁸

⁴ Prof. Jorge L. Contreras, Comments on USPTO-DOJ-NIST Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments, ID No. ATR-2021-0001-0059 (filed Jan. 31, 2022); Prof. Mark A. Lemley et al., Comments of Professors of Law, Economics, Business, and Policy on Draft Policy Statement on Licensing Negotiations and Remedies for Standard-Essential Patents, ID No. ATR-2021-0001-0047 (filed Jan 24, 2022); Prof. Michael A. Carrier, Comments on Draft Policy Statement on Licensing Negotiations and Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments, ID No. ATR-2021-0001-0004 (filed Dec. 27, 2021).

⁵ Carrier, *supra* note 4; Lemley et al., *supra* note 4.

⁶ Carrier, *supra* note 4; Lemley et al., *supra* note 4.

⁷ Carrier, *supra* note 4; Lemley et al., *supra* note 4; *see also* Contreras, *supra* note 4 (concurring with Lemley et al. and Carrier and suggesting further that (1) royalty-free standards should be considered a viable and desirable alternative to FRAND-encumbered royalties; (2) the opacity of bilateral licensing negotiations contributes to the proliferation of costly litigation; (3) agencies should discourage parties in FRAND disputes from seeking judicial determinations of global FRAND rates without the acquiescence of both parties).

⁸ Except for Part II.A, the remainder of these comments are adapted from Brunell & Moss, *supra* note 3. For simplicity, citations and internal quotations from that work are omitted.

I. How We Got Here: Consensus Policies Reversed by Fiat

The policies reflected in the Trump Antitrust Division’s 2019 policy statement turned sharply away from a bipartisan consensus developed through years of careful research and analysis. The Bush administration’s antitrust agencies began to study the problem of patent holdup in 2002, when they held extensive hearings on patents and competition policy.⁹ The hearings led to two important reports that addressed patent holdup, among other things. One, issued by the Bush FTC in 2003, considered the “ways that hold-up can harm competition and innovation.”¹⁰ The other, issued jointly by the Bush Antitrust Division and FTC in 2007, gave significant attention to the problem of holdup in the standard-setting context.¹¹

One chapter of the joint report examined “the potential for ‘hold up’ by the owner of patented technology after its technology has been chosen by the SSO as a standard and others have incurred sunk costs which effectively increase the relative cost of switching to an alternative standard.”¹² The joint report explained:

Before, or *ex ante*, multiple technologies may compete to be incorporated into the standard under consideration. Afterwards, or *ex post*, the chosen technology may lack effective substitutes precisely because the SSO chose it as the standard. Thus, *ex post*, the owner of a patented technology necessary to implement the standard may have the power to extract higher royalties or other licensing terms that reflect the absence of competitive alternatives. Consumers

⁹ See Commissioner Terrell McSweeney, Fed. Trade Comm’n, Holding the Line on Patent Holdup: Why Antitrust Enforcement Matters (Mar. 21, 2018) (highlighting initiative of former FTC Chair Tim Muris and joint agency hearings in 2002 that featured over 300 panelists and more than 100 written comments).

¹⁰ FED TRADE COMM’N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY, ch. 2, at 28-29 (Oct. 2003) [hereinafter 2003 FTC IP REPORT]; see also *id.*, ch. 3, at 39-41, 43, 55-56. The FTC’s unanimous decision in *Rambus* also articulated the general “hold up” problem when industry members “find themselves locked-in’ to the standardized technology once switching costs become prohibitive,” and the owner of the standardized technology can “charge supracompetitive rates.” *In re Rambus, Inc.* at 4, FTC No 9302 (July 31, 2006), *rev’d on other grounds, Rambus Inc. v. Fed. Trade Comm’n*, 522 F.3d 456 (D.C. Cir. 2008).

¹¹ U.S. DEPT. OF JUSTICE AND FED. TRADE COMMISSION, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION 6-8, 33-56 (2007) [hereinafter 2007 DOJ/FTC IP REPORT].

¹² *Id.* at 35. More than 25 experts with a wide range of perspectives discussed these topics at several sessions of the hearings. See *id.* at 39 n.29.

of the products using the standard would be harmed if those higher royalties were passed on in the form of higher prices.¹³

The joint report concluded that avoiding the risk and harm of holdup was sufficiently procompetitive to justify rule-of-reason treatment for joint *ex ante* licensing negotiations.¹⁴ The bipartisan Antitrust Modernization Commission endorsed the same position over the objection of only a single dissenter, Commissioner Makan Delrahim.¹⁵

The Obama administration continued to study the problem of patent holdup, with the FTC's hearings on the "Evolving Intellectual Property Marketplace" and a joint FTC, DOJ, and PTO workshop on "The Intersection of Competition Policy and Patent Policy: Implications for Promoting Innovation."¹⁶ The hearings and workshop provided the basis for the Obama FTC's highly regarded 2011 report on patent notice and remedies which, among other things, found that "[h]old-up in the standard setting context can be particularly acute" and "may have especially severe consequences for innovation and competition."¹⁷ The FTC relied on the analysis of patent holdup in the 2011, 2007, and 2003 reports to advocate for strong limitations on the ability of SEP holders to seek injunctions in federal court and exclusion orders at the ITC.¹⁸

In 2013, the Antitrust Division joined with the USPTO in issuing a Joint Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary

¹³ *Id.* at 36.

¹⁴ *Id.* at 53-56.

¹⁵ ANTITRUST MODERNIZATION COMMISSION, REPORT AND RECOMMENDATIONS 118 (2007) [hereinafter AMC REPORT]. Commissioner Garza supported the recommendation with qualifications. *See id.*; *see also* Letter from Assistant Attorney General Thomas O. Barnett to Robert A. Skitol, Esq. (Oct. 30, 2006) [hereinafter VITA Business Review Letter] (business review letter approving *ex ante* disclosure of license terms to avoid situation in which implementers "may be willing to license a patented technology included in the standard on more onerous terms than they would have been prior to the standard's adoption").

¹⁶ U.S. PATENT AND TRADEMARK OFFICE, U.S. DEPT. OF JUSTICE, FED. TRADE COMM'N, WORKSHOP ON THE INTERSECTION OF COMPETITION POLICY AND PATENT POLICY: IMPLICATIONS FOR PROMOTING INNOVATION (May 26, 2010) [hereinafter 2010 JOINT WORKSHOP].

¹⁷ FED TRADE COMM'N, THE EVOLVING IP MARKETPLACE: ALIGNING PATENT NOTICE AND REMEDIES WITH COMPETITION 191, 234 (March 2011) [hereinafter 2011 FTC IP REPORT].

¹⁸ *See* Third Party United States Federal Trade Comm'n's Statement on the Public Interest, *In re* Certain Gaming and Entertainment Consoles, Related Software, and Components Thereof, Int. Trade Commission Inv. No. 337-TA-751 (June 6, 2012); Brief of Amicus Curiae Fed. Trade Commission Supporting Neither Party, *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286 (Fed. Cir. 2014) (No. 2012-1548).

F/RAND Commitments.¹⁹ The 2013 statement endorsed sensible limits on the issuance of exclusion orders by the International Trade Commission (ITC) against SEP infringements when the infringer is willing to take a license and the SEP owner has voluntarily committed to license on F/RAND terms. It relied entirely on patent law, antitrust law, and the consensus learning developed from years of bipartisan research and analysis reflected in the agency hearings, workshops, and reports.

In March 2017, President Trump chose Mr. Delrahim to lead the Antitrust Division as Assistant Attorney General. Mr. Delrahim was confirmed by the Senate that fall. Within two months of Senate confirmation, the Antitrust Division, under Assistant Attorney General Delrahim’s leadership, began to unilaterally reverse more than fifteen years of cooperative advocacy and policy development with the FTC about the competitive problem of patent holdup.

The DOJ withdrew the 2013 policy statement pursuant to nothing more than a series of Mr. Delrahim’s speeches, without the benefit of any agency studies or hearings, or other meaningful engagement with scholars and stakeholders, and without the support of the FTC, other affected agencies of the U.S. government, or our international competition partners.²⁰ The views expressed about holdup in Mr. Delrahim’s speeches contravened not only the well-established views previously held

¹⁹ U.S. Dep’t of Just. & U.S. Patent and Trademark Off., Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments (Jan. 8, 2013), <https://bit.ly/3skrsvw> [hereinafter “2013 Policy Statement”].

²⁰ See Makan Delrahim, Asst. Att’y Gen., Take It to the Limit: Respecting Innovation Incentives in the Application of Antitrust Law, Remarks as Prepared for USC Gould School of Law—Application of Competition Policy to Technology and IP Licensing 1-2 (Nov. 10, 2017) [hereinafter “Take it to the Limit”]; Makan Delrahim, Asst. Att’y Gen., Competition, Intellectual Property, and Economic Prosperity, Remarks as Presented before the China Intellectual Property Law Society (Feb. 1, 2018) [hereinafter “Economic Prosperity”]; Makan Delrahim, Asst. Att’y Gen., The “New Madison” Approach to Antitrust and Intellectual Property Law, Remarks as Prepared for Delivery at University of Pennsylvania Law School (Mar. 16, 2018) [hereinafter “New Madison”]; Makan Delrahim, Asst. Att’y Gen., The Long Run: Maximizing Innovation Incentives Through Advocacy and Enforcement, (Apr. 10, 2018) [hereinafter “Long Run”]; Makan Delrahim, Asst. Att’y Gen., Antitrust Law and Patent Licensing in the New Wild West, Remarks as Prepared for the LeadersHIP Conf. (Sep. 18, 2018) [hereinafter “New Wild West”]; Makan Delrahim, Protecting Free-Market Patent Bargaining, Competition, and the Right to Exclude, Remarks as Prepared for the Federal Circuit Bar Ass’n Global Series 2018 (Oct. 10, 2018) [hereinafter “Free-Market Patent Bargaining”]; Makan Delrahim, Asst. Att’y Gen., “Telegraph Road”: Incentivizing Innovation at the Intersection of Patent and Antitrust Law, Remarks at the 19th Annual Berkeley-Stanford Advanced Patent Law Institute 6 (Dec. 7, 2018) [hereinafter “Telegraph Road”].

throughout the government but even the views expressed by President Trump’s own Attorney General, William Barr.²¹

Notwithstanding that the 2013 Statement had been crafted to be fully consistent with patent law, antitrust law, and the policies and common practices established by numerous private standard-setting organizations (SSOs), Mr. Delrahim stated in a speech that the 2013 Statement inappropriately “place[d] a thumb on the scale against an injunction in the case of FRAND-encumbered patents.”²² He also stated that a FRAND commitment “should not create a compulsory licensing scheme” and that patent holders have a “full constitutional right to seek an injunction.”²³

On that basis, in 2019, the Trump Antitrust Division adopted a new policy statement.²⁴ The revised joint policy statement did not even mention the problem of holdup in the body of the text; it referenced holdup only once, in a footnote, which it discussed equivalently to so-called “holdout” by SEP *licensees*.²⁵ Given the aggressive position the Antitrust Division had already staked out in numerous speeches, the USPTO had little choice but to follow its lead.²⁶ NIST also became bound.

The 2019 Statement vaguely claimed, without explanation or citation, that it had “heard concerns” the 2013 statement was being “misinterpreted,” and it purported to “clarify” the agencies’ views accordingly.²⁷ But the 2019 Statement removed any expression of concern about holdup from the body of the policy and emphasized instead that “the remedies that may apply in a[ny] given patent case...are equally

²¹ Mr. Barr participated in the 2010 Joint Workshop, *supra* note 16, to address the problem of patent holdup in ITC proceedings. Based on his experience as the former general counsel of Verizon, Mr. Barr criticized “any regime where you have the real threat of automatic injunctive relief upon showing infringement [because it] enables a system of holdup, where a non-practicing patent holder can use that sledgehammer of prospective relief to extract from industries that expended a lot of resources and locked themselves into commercializing a particular technology, [and] allows the claimant in that case to extract industry fees that are far in excess of the economic value of its intellectual property or its contribution to innovation.” *Id.* at 124. His criticism of exclusion orders was not limited to cases of FRAND-encumbered patents, and he argued that such orders harmed innovation and raised constitutional problems. *Id.* at 142-43, 159.

²² Delrahim, Telegraph Road, *supra* note 10.

²³ *Id.*

²⁴ USPTO et al., Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments (Dec. 19, 2019), <https://bit.ly/34foEYD> [hereinafter “2019 Statement”].

²⁵ *Id.*; see *infra* Part II.B. (discussing key differences between holdup and holdout).

²⁶ See Michael A. Carrier, *New Statement on Standard-Essential Patents Relies on Omissions, Strawmen, Generalities*, Bloomberg Law, Jan. 13, 2020, <https://bit.ly/3GmZwMz>.

²⁷ 2019 Statement, *supra* note 24.

available in patent litigation involving standards-essential patents.”²⁸ It said, “a patent owner’s F/RAND commitment...need not act as a bar to any particular remedy.”²⁹ And it revised the policy to state that “the general framework for deciding these issues remains the same as in other patent cases.”³⁰

The changes provided no clarity; they only sowed confusion. As Professor Carrier put it, the 2019 Statement was “full of anodyne assertions that don’t add much to the existing analysis: standards ‘play a vital role in the economy’; the parties should ‘engage in good-faith negotiations’; a FRAND commitment ‘need not act as a bar to any particular remedy’; [a]ll remedies available under national law ... should be available’ for infringement of FRAND-encumbered SEPs; and decisionmakers should ‘consider all relevant facts.’”³¹

“In short,” Professor Carrier summarized, “the statement’s generalities [did] not meaningfully assist courts and other policymakers. And a series of omissions and strawmen [made] the statement less balanced and reasonable than the document it replaced.”³²

II. The Current Draft Policy Statement Restores Needed Balance But Can Go Further by Providing Additional Clarifications

As the foregoing and the comments of Prof. Carrier, Prof. Lemley et al., and Prof. Contreras illustrate, perhaps the greatest contribution of the current draft policy statement is simply that it restores the balance that prevailed prior to the aberrant 2019 Statement. However, the DOJ, USPTO, and NIST should also consider additional changes that would further guide other agencies, courts, and Congress toward appropriate limits on injunctive relief and exclusion orders for willing licensees’ infringements of F/RAND-encumbered SEPs. Sections A. and B. below identify two ways to strengthen the policy statement: (1) acknowledge that the deceptive nature of holdup counsels against injunctive relief under the third and fourth *eBay* factors, and (2) acknowledge that holdup directly affects the competitive process in ways holdout does not.

²⁸ *Id.*

²⁹ *Id.*

³⁰ *Id.*

³¹ Carrier, *supra* note 26.

³² *Id.*

A. Clarify that Deception Counsels Against Injunctive Relief Under *eBay*

The draft statement notes that when negotiations to determine the F/RAND rate fail and the parties cannot agree on alternative dispute resolution or to seek a F/RAND determination in a mutually agreeable jurisdiction, the relevant considerations in assessing the appropriate remedy for infringement of a valid and enforceable SEP are enumerated in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), 35 U.S.C. §§ 283–284, or 19 U.S.C. § 1337, as appropriate. To qualify for permanent injunctive relief, *eBay* holds that a plaintiff must satisfy a four-factor test. “A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.”³³

The current draft statement notes that, in applying the four *eBay* factors to determine the availability of injunctive relief, the Federal Circuit has observed that a FRAND commitment undermines the showing of irreparable harm required by the first factor, because it reflects the patent holder’s agreement to widely license.³⁴ The draft statement also notes that the Federal Circuit recognizes the availability of monetary damages should be adequate to compensate for the alleged injury, which undermines the necessary showing for the second factor. However, the statement’s analysis does not address the third and fourth *eBay* factors.

AAI encourages the agencies to recognize that holdup is a form of deception, which undermines the necessary showing for the third and fourth *eBay* factors. Deception undermines the necessary showing for the third factor because a party with unclean hands ordinarily is not entitled to a remedy in equity.³⁵ It undermines the showing required for the fourth factor because deception has no cognizable efficiency benefits as a matter of law, and it therefore is never in the public interest.³⁶ Most if not all

³³ *eBay, Inc.*, 547 U.S. at 391-93.

³⁴ 2021 Draft Statement, *supra* note 2.

³⁵ See T. Leigh Anenson, *Announcing the “Clean Hands” Doctrine*, 51 U.C. DAVIS L. REV. 1827, 1859-60 (2018).

³⁶ See PHILLIP E. AREEDA & HERBERT HOVENKAMP, *ANTITRUST LAW* ¶ 782b, at 326 (3d ed. 2008) (“There is no redeeming virtue in deception”); Maurice E. Stucke, *When a Monopolist Deceives*, 76 *ANTITRUST L.J.* 823, 825 (2010) (“Deception lacks any redeeming economic qualities or cognizable efficiency justifications”); Harry S. Gerla, *Federal Antitrust Law and the Flow of Consumer Information*, 42 *SYRACUSE L. REV.* 1029, 1030 (1991) (“False or misleading information is deadweight economic loss, causing injury without any offsetting economic benefit.”); ARTHUR C. PIGOU, *THE ECONOMICS OF*

holdup in the standard-setting context is deceptive, because it is accomplished by lying to a standards organization.

The Federal Trade Commission, which has statutory authority to prevent unfair and deceptive acts or practices, defines a deceptive act as a “misrepresentation, omission or practice” that was “material” in that it was likely to mislead “others acting reasonably under the circumstances” and thereby affect their “conduct or decision[s].”³⁷ A SEP owner unmistakably engages in deception when it makes a FRAND commitment during the standard-setting process with a specific intent to withhold a license or charge non-FRAND royalties after the standard incorporating its SEP has become entrenched.³⁸ But a SEP owner also engages in a form of deception if it fully intends to keep its promise when it makes its FRAND commitment and then subsequently opts to deliberately breach the promise to exploit the monopoly power conveyed by standardization.³⁹

The draft policy statement describes the latter behavior as “opportunistic” conduct, but it is also fundamentally deceptive under FTC criteria because it is accomplished only by dishonestly renegeing on a promise that induced reliance.⁴⁰ That the SEP owner makes a liar out of itself retroactively, and may not act with the same degree of guile as the SEP owner who specifically intends to lie from the outset, is an irrelevant distinction; such willful behavior cannot support injunctive relief under the third and fourth *eBay* factors.⁴¹

B. Clarify that Holdup and Holdout are False Equivalents

Consistent with its balanced approach, the draft statement recognizes that harmful effects can be caused by both holdup and “holdout.” The latter occurs when the implementer of a standard purposely chooses to infringe a SEP because it is more profitable to delay and litigate than to take a FRAND license. Accordingly, the draft

WELFARE pt. II ch. IX § 17 (4th ed. 1932) (“As a rule . . . the social net product of any dose of resources invested in a deceptive activity is negative.”).

³⁷ Fed. Trade Comm’n, Policy Statement on Deception (1983), *reprinted in* 4 Trade Reg. Rep. (CCH) ¶ 13,205 at 20,911-12.

³⁸ See Anenson, *supra* note 35, at 1859-60.

³⁹ See *id.*; Christopher R. Leslie, *The DOJ’s Defense of Deception: Antitrust Law’s Role in Protecting the Standard-Setting Process*, 98 OREGON L. REV. 379, 399-400 (2020) (Even without deception “at the outset,” the FRAND breach “retroactively distorts the competitive process because the competitive process for picking the standard is tainted after the patentee has breached its FRAND commitment”).

⁴⁰ See Leslie, *supra* note 39, at 399-400.

⁴¹ See Anenson, *supra* note 35, at 1859-60; Leslie, *supra* note 39, at 399-400.

statement recognizes that a SEP owner should be permitted to seek an injunction when confronted with an unwilling licensee, just as the 2013 statement recognized.⁴²

However, in its scrupulous commitment to balance, the current draft statement risks false equivalency. It notes that holdup “can deter investment in and delay introduction of standardized products, raise prices, and ultimately harm consumers and small businesses.”⁴³ And it notes, “[a]t the same time,” that holdout “can lessen patent holders’ incentives to participate in the [standards] development process or contribute technologies to standards voluntarily,” and consequently “patent holders may opt for closed, proprietary standards that do not offer the same benefits of interoperability and enhanced consumer choice.”⁴⁴

While holdup and holdout are both socially undesirable, the current draft statement fails to acknowledge that “hold-up and holdout are different species of behavior.”⁴⁵ Whereas holdup is intimately tied to standardization and can therefore affect the competitive process, holdout simply reflects the choice available to any alleged infringer to litigate rather than to settle.⁴⁶

As Professor Contreras has explained:

[H]old-up arises from an SEP holder’s potential violation of its commitment to license its SEPs on FRAND terms so as to extract from manufacturers more value than can be attributed to the SEP holder’s technical contribution. As such, hold-up is integrally tied to the standardization process and the commitments made therein. Holdout, on the other hand, is simply willful patent infringement.... The manufacturer that elects not to accept an SEP license on FRAND terms but nevertheless sells standardized products... runs...the same risk that every manufacturer that fails to obtain a necessary patent license faces.⁴⁷

Accordingly, Professor Contreras concludes that “holdout is largely a distraction” in the conversation about appropriate remedies for SEP infringement.⁴⁸

⁴² 2021 Draft Statement, *supra* note 2; 2013 Statement, *supra* note 19.

⁴³ 2021 Draft Statement, *supra* note 2.

⁴⁴ *Id.*

⁴⁵ Jorge L. Contreras, *Much Ado About Hold-Up*, 2019 ILL. L. REV. 875, 895 (2019).

⁴⁶ *Id.*

⁴⁷ *Id.* at 895-96

⁴⁸ *Id.* at 896.

Indeed, it is unclear that holdout has any legal relevance at all. As Judge Posner has noted, “the ‘American rule’ . . . does not deem damages an inadequate remedy just because, unless backed by a threat of injunction, it may induce a settlement for less than the damages rightly sought by the plaintiff.”⁴⁹ The purpose of injunctions under the Patent Act is not to provide leverage for patent holders to increase royalties. *eBay* makes clear that the purpose, as with equitable relief generally, is to protect patent holders from harms that cannot be compensated by money damages.

Even assuming *arguendo* that holdout is legally relevant, there are good reasons to doubt its significance. As the FTC, the DOJ prior to Mr. Delrahim’s leadership, and many critics have pointed out, implementers have strong incentives to negotiate a license. First, an infringer that fails to take a license may be liable for treble damages and attorneys’ fees for willful infringement. Second, implementers often take a license for a portfolio of patents, in which case it *should* pay less than the royalty a court would order if it finds liability, because a reasonable negotiated FRAND rate will be discounted by the likelihood that some or all the standard-essential patents at issue are invalid or not infringed. Third, negotiating a license will reduce cost uncertainty for the implementer. And fourth, both implementers and patent holders have an incentive to negotiate a license to avoid the expense of litigation.

The policy statement should acknowledge this qualitative difference between holdup and holdout. Holdup directly interferes with the *ex ante* competition that is essential to procompetitive standardization. Holdout’s impact on the competitive process is tangential at best.

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Thank you for considering the views of the American Antitrust Institute.

Respectfully submitted,

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⁴⁹ *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 915 (N.D. Ill. 2012), *aff’d in part, rev’d in part*, 757 F.3d 1286 (Fed. Cir. 2014).

