United States Senate

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February 4, 2022

The Honorable Jonathan Kanter
Assistant Attorney General
Antitrust Division
U.S. Department of Justice
950 Pennsylvania Avenue, NW
Washington, DC 20530

Dear Assistant Attorney General Kanter:

We write in response to the DOJ Antitrust Division request for comment on the draft revision to the current policy statement on licensing negotiations and remedies for standards-essential patents (SEPs) subject to F/RAND commitments. We have significant concerns about the process and substance of the ongoing effort to revise this policy that is central to protecting and encouraging standards-setting activity by U.S. corporations.

The stakes for any revision to policy on SEP license negotiations and patent infringement remedies are high. Voluntary standards-setting activities, and the patents that underlie them, play a vital role in encouraging U.S. research and development in critical areas like artificial intelligence, 5G, 6G, and the Internet of Things. This investment brings important innovations to American consumers. Domestic investment in these areas is equally vital to ensuring American competitiveness in global markets and protecting our national security interests. Research and investment into these important technologies depends upon the incentives provided by strong intellectual property protections for SEPs.

In our view, the existing guidance issued in 2019 properly balances incentivizing SEP research and development with our domestic and global interests. The proposed revision to that guidance, published on December 6, 2021, returns U.S. policy to its harmful prior position of favoring standards implementers over SEP owners in license negotiations. The unbalanced posture struck by the revision will embolden strategic infringers and disincentivize U.S. research and development in these critical technologies. In turn, that risks disadvantaging the ability of U.S. industry to compete with domestic and global rivals, and weakening our national ability to compete with countries like China that are actively seeking to dominate the next generation of technological standards.

If any changes to existing policy are to occur, the draft revision should be set aside to permit a process that provides meaningful evaluation of these complex issues. That process should await Senate-confirmed leadership at the USPTO and NIST before beginning, and solicit the valuable perspectives of government and public stakeholders. That process must include assessing the interplay between policy here and national security interests.

The 2021 Draft Revision Does Not Reflect Input From Senate-Confirmed Policymakers Or Necessary Stakeholders

In December 2019, DOJ Antitrust, USPTO, and NIST issued a joint statement on remedies available to SEPs subject to voluntary F/RAND commitments ("2019 Policy Statement").[1] "F/RAND" is short for a "fair, reasonable, and non-discriminatory" licensing commitment. The 2019 Policy Statement addresses the availability of infringement remedies for an SEP subject to a F/RAND commitment when licensing negotiations with implementers fail. An earlier 2013 statement from DOJ and USPTO took the position that a unique set of rules should apply to SEPs subject to a F/RAND commitment, and signaled that equitable remedies like injunctions were not available ("2013 Policy Statement").[2] The 2019 Policy Statement replaced the earlier 2013 Policy Statement with a balanced approach recognizing that the full range of remedies should be available to an SEP, even if they may not be appropriate in a given scenario.

President Biden's Executive Order on competition "encouraged" the relevant agencies to "consider whether to revise" the 2019 Policy Statement "[t]o avoid the potential for anticompetitive extension of market power beyond the scope of granted patents, and to protect standard-setting processes from abuse."[3] Given the significance of the issue, concern has been repeatedly expressed that any policy revision be carefully considered and subject to a fair process. At a minimum, fair process here requires that any revision wait for Senate-confirmed leadership at DOJ Antitrust, USPTO, and NIST, to permit input from politically accountable officials with policy experience in this area. Similarly, any revision process must include adequate opportunity for interested stakeholders to offer their views on the wisdom and direction of any changes. These concerns were raised by members with Attorney General Garland, Deputy Attorney General Monaco, White House officials, Assistant Attorney General Kanter, and Kathi Vidal (President Biden's nominee for USPTO Director). The collective response was that these concerns were valid and that a fair process would be afforded.

Thus, we were disappointed by the DOJ's December 6, 2021 request for public comments ("DOJ comment request") that provided for a small input window on an already drafted revision shared

[1] USPTO, DOJ Antitrust, & NIST, "Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments" (Dec. 19, 2019).
[2] DOJ and USPTO, "Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments" (Jan. 8, 2013).
[3] Exec. Order No. 14,036, 86 Fed. Reg. 36987, 36991-92 (July 9, 2021).

the same day ("2021 Draft Revision"). First, undertaking such a significant policy revision when neither USPTO nor NIST have confirmed leadership undermines the accountability and transparency of the process. That nominations for leadership at USPTO and NIST were pending at the time the 2021 Draft Revision and DOJ comment request were issued makes the rush to revise the policy even more concerning. That is particularly true for Ms. Vidal's nomination to lead the USPTO, which is moving forward and should be completed in short order. Second, affording a short 60-day comment window—half of which was consumed by the end-of-year 2021 holiday period—on an already drafted revision, when the Executive Order merely instructed the relevant bodies to consider whether a revision was appropriate, leaves stakeholders with the clear impression that the issue has been prejudged. These critical defects in the policy process appear designed to discourage meaningful participation and debate, and raise serious questions about the legitimacy of any resulting policy product.

The Balanced 2019 Policy Statement Should Remain In Place Because It Encourages Investment In Standards-Setting Activities And Good-Faith License Negotiations

Proper consideration of this policy issue should have started with soliciting feedback on whether the 2019 Policy Statement needs to be revised. While we appreciate that the DOJ comment request asks this predicate question, it should have been fully and properly vetted before the 2021 Draft Revision was written and comments solicited. There are very good reasons not to revise existing policy. The 2019 Policy Statement seeks to further goals that we all share:

> Steps that encourage good-faith licensing negotiations between standards essential patent owners and those who seek to implement technologies subject to F/RAND commitments by the parties will promote technology innovation, further consumer choice, and enable industry competitiveness.[4]

In adopting the 2019 Policy Statement, DOJ, USPTO, and NIST explained that the earlier 2013 Policy Statement was understood to provide that a

> unique set of legal rules should be applied in disputes concerning patents subject to a F/RAND commitment that are essential to standards (as distinct from patents that are not essential), and that injunctions and other exclusionary remedies should not be available in actions for infringement of standards-essential patents.[5]

The agencies recognized that policies excluding injunctive and other exclusionary relief do not encourage good-faith licensing negotiations, robust competition between innovator and implementer, and participation in valuable standards-setting initiatives. Rather, the restrictive approach taken in 2013 "would be detrimental to a carefully balanced patent system, ultimately resulting in harm to innovation and dynamic competition."[6] Indeed, the 2013 Policy Statement "created unnecessary confusion, emboldened strategic infringers, and had the potential to discourage investment by American companies, innovators, and entrepreneurs in critical

[4] 2019 Policy Statement at 1.
[5] 2019 Policy Statement at 4.
[6] 2019 Policy Statement at 4.

technologies."[7] The unbalanced playing field created by the 2013 Policy Statement was seen as a signal from the United States government to tribunals, regulators, and competitors—domestic and international—to adopt aggressive and restrictive postures towards SEPs.

DOJ, USPTO, and NIST wisely replaced the harmful 2013 Policy Statement with the current balanced 2019 Policy Statement. The 2019 policy correctly recognizes that "[w]hen licensing negotiations fail, however, appropriate remedies should be available to preserve competition, and incentives for innovation and for continued participation in voluntary, consensus-based, standards-setting activities."[8] The 2019 Policy Statement does not prejudge the availability of particular relief.[9] Thus, the 2019 Policy Statement explains that "a patent owner's F/RAND commitment is a relevant factor in determining appropriate remedies, but need not act as a bar to any particular remedy."[10] By explaining that statutory remedies apply to all patents, but also recognizing that SEPs are subject to unique circumstances that can be considered when determining whether to apply those remedies, the 2019 Policy Statement maximizes the potential for good-faith license negotiations and encourages participation in standards development.

The 2021 Draft Revision Creates Unbalanced Policy That Emboldens Strategic Infringers, And Discourages Good-Faith Negotiations And Investment In Standards Setting

Any shift from the 2019 Policy Statement back to the uneven policy staked out in the 2013 Policy Statement—as the 2021 Draft Revision does—will significantly harm the U.S. intellectual property system, consumers, and companies. Like the 2013 Policy Statement, the 2021 Draft Revision observes that injunctive relief "may be appropriate" in certain circumstances. But any neutral statements in the 2021 Draft Revision evaporate in the face of express language pre-deciding that such relief is generally unavailable: "As a general matter, consistent with judicially articulated considerations, monetary remedies will usually be adequate to fully compensate a SEP owner for infringement."[11] The end result of the 2021 Draft Revision will be

[7] Letter from Sens. Coons and Tillis to The Honorable William Barr and The Honorable Makan Delrahim (Oct. 21, 2019) (advocating for a balanced revised policy statement on remedies issues).
[8] 2019 Policy Statement at 1-2.
[9] 2019 Policy Statement at 7 ("Of course, the particular F/RAND commitment made by a patent owner, the SDO's intellectual property policies, and the individual circumstances of licensing negotiations between patent owners and implementers all may be relevant in determining remedies for infringing a standards-essential patent, depending on the circumstances of each case.").
[10] 2019 Policy Statement at 4.
[11] 2021 Draft Revision at 8. This language mirrors harmful language in the 2013 Policy Statement. *See, e.g.*, 2013 Policy Statement at 8 (Expressing "caution in granting injunctions or exclusion orders" for SEPs and instead favoring monetary compensation for infringement). The Federal Circuit's decision in *Apple* did not articulate a broad presumption favoring monetary compensation over injunctive relief, as the 2021 Draft Revision suggests. The Court rejected a *per se* rule against injunctions for SEP owners, instead recognizing that injunctive relief

the same as the 2013 Policy Statement: it will be understood to fashion a special set of rules for SEPs that improvidently removes the availability of statutorily-provided remedies for SEP owners.[12] That, in turn, encourages strategic infringers and risks undermining U.S. investment and development in critical technologies.

Facilitating good-faith negotiations requires adequately incentivizing participation by both the SEP owner and implementer. The 2021 Draft Revision narrowly focuses on concerns over SEP owner "hold-up" activity—where a patentee leverages its SEP position to obtain higher royalty rates. While such concerns are relevant, the 2021 Draft Revision does not appear to adequately account for the equally disruptive negotiation hurdle of implementer "hold-out"—where an implementer fails to engage in meaningful license negotiations or accept F/RAND rates in order to force patentees into litigation or to accept lower royalty rates.[13] Proper policy must account for both dynamics, as the 2019 Policy Statement does.[14]

The 2021 Draft Revision's removal of injunctive relief for patentees subject to F/RAND commitments severely undermines standards activity and the patent system. The availability of injunctive relief can be an effective tool to curb anticompetitive behavior and encourage good-faith negotiation. Conversely, eliminating an SEP owner's access to injunctive and exclusionary remedies creates an unbalanced negotiation posture, thereby favoring implementers and encouraging harmful implementer hold-out.[15] If a potential licensee faces only the prospect of monetary damages (often set at a F/RAND rate) following an infringement trial, they have little incentive to agree to that rate during license negotiations; they will be no worse off following trial than they would have been if they had agreed to that rate during negotiations. And the potential licensee will have forced the SEP holder to engage in costly litigation to simply obtain that rate, harming the SEP owner and creating significant market and competition inefficiencies. Strong restrictions on even the possibility of injunctive and other exclusionary relief can significantly impact the incentive for implementers to negotiate, or enter into, a

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generally available to patents applies with equal force to patents deemed "essential." *Apple*, *Inc. v. Motorola, Inc*, 757 F.3d 1286, 1331-32 (Fed. Cir. 2014), *overruled on other grounds*, *Williamson v. Citrix Online, LLC*, 792 F.3d 1339 (Fed. Cir. 2015). While a divided panel affirmed the lower court's determination that such relief was inappropriate under the facts there, then-Chief Judge Rader's dissent from that holding succinctly articulates the problems with failing to account for the interplay between implementer hold-out and possible injunctive relief. *See id.* at 1332-34 (explaining that proof of an unwilling licensee "would strongly support" an SEP owner's injunction request).

[12] *See* 35 U.S.C. § 283 (Courts "may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable").

[13] *See Apple*, 757 F.3d at 1333 (Rader, dissenting) (observing that "a 'hold-out' … is equally as likely and disruptive as a 'hold-up'" in SEP license negotiations).

[14] *See* 2019 Policy Statement at 5, n.13.

[15] *See, e.g.*, Jonathan M. Barnett, *Has the Academy Led Patent Law Astray?*, 32 BERKELEY TECH. L.J. 1313, 1336-37 (2017).

license, thereby upsetting the balanced dynamics optimal to achieve good-faith negotiations.

The 2021 Draft Revision exacerbates the problems caused by eliminating injunctive relief by articulating uneven obligations for patentees and implementers in "good-faith" negotiations. The expected conduct in a "good-faith" negotiation articulated by the 2021 Draft Revision appears to place a greater burden on patentees to demonstrate good faith and advance negotiations than the conduct for implementers. For example, SEP owners are apparently expected to provide detailed infringement information and a F/RAND offer from the outset, while the implementer may apparently respond by simply requesting more information from the SEP owner.[16] Similarly, the SEP owner is not clearly provided the same ability to respond by asking for information from the implementer. The disparity in expected conduct potentially lends implementers greater negotiation power. At a minimum, articulating what constitutes "good-faith" negotiations in the first instance requires input from interested stakeholders, which has not occurred.

In short, the uneven negotiation dynamics created by the 2021 Draft Revision threaten to encourage anticompetitive conduct, and discourage good-faith license negotiations and participation in standards activities—fueling the problems that this policy seeks to solve. The U.S. government should not embrace policy that stacks the deck against domestic SEP owners and encourages strategic infringement by foreign and domestic competitors. Proper policy must recognize that both SEP owners and implementers share a role in conducting good-faith negotiations. Proper policy should recognize that SEP owners who engage in good-faith negotiations retain the ability to obtain injunctive and other exclusionary relief provided by statute. The 2019 Policy Statement adheres to these principles and should be left in place to realize the benefits provided through standards development. And given the complexity of these issues, any attempt to revise that guidance is premature without meaningful input from stakeholders that has not yet occurred.

Any Revision To Existing Policy Must Assess The Implications To U.S. National Security

The stakeholder input that should drive any policy revision in this space extends beyond the particulars of patent licensing negotiations and antitrust concerns. SEP license negotiations, and the SEP activities to which they relate, implicate additional important concerns, including international competition, trade, and national security issues, most notably with China. It is vital that the U.S. government treat patent policy calibration—particularly for standards-setting activity—as a national security issue.[17] Any changes to the 2019 Policy Statement should solicit and consider feedback from stakeholders in these areas. The extensive process on these issues being conducted by our international partners confirms that the experienced perspective of stakeholders in these varied areas should be brought to bear if any changes to policy are

[16] See 2021 Draft Revision at 5-6.

[17] *See, e.g.*, Andrei Iancu & David J. Kappos, *U.S. Intellectual Property is Critical to National Security* (July 12, 2021), available at https://www.csis.org/analysis/us-intellectual-property-critical-national-security (last visited Jan. 25, 2022).

contemplated here.[18]

SEPs form global technical standards; encouraging SEP development by U.S. companies protects our national interest through meaningful competition with foreign states—particularly China—actively working to dominate the standards markets. Standards in key areas like telecommunications and artificial intelligence will provide significant advantages economically and militarily to the country that develops them. The 2021 Draft Revision discourages U.S. companies from developing the next round of critical standards technology. That will open the door to Chinese and other foreign standards development, weakening U.S. national security.

The harm to national security caused by the weakening of U.S. patent rights contemplated in the 2021 Draft Revision extends to existing standards. The immediate and largest beneficiaries of the proposed revision promises to be Chinese companies, who are the world's largest consumer of SEP-based technology.[19] Stakeholders inform us of systemic hold-out practices by Chinese entities, particularly in the telecommunications industry. Emboldening foreign strategic infringement by weakening patent protection for U.S. companies directly benefits Chinese interests by diverting significant amounts of money away from U.S. corporations—and the technological research and development it could fund—into Chinese hands.

Market mechanisms supported by strong intellectual property protection have allowed the United States to lead in foundational 5G and other critical areas by encouraging private investment of money and talent into developing the technology that forms global standards. This permits the U.S. and our companies to compete with firms such as those in China, which receive substantial governmental support and therefore do not rely on licensing revenue to fund R&D into new technology. The U.S. government must provide adequate incentives to maintain U.S. leadership in future generations of standards in wireless telecommunications and other cutting edge technologies to compete in the global technological arms race that is already underway. The 2021 Draft Revision should be reconsidered in light of national security considerations, and the departments and agencies in the federal government with national security equities should be involved in producing a new policy statement if the 2019 Policy Statement is to be revised.

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[18] On December 7, 2021, the United Kingdom issued a broad call for views on SEP matters, including licensing, and provided 12 weeks to respond. *See* https://www.gov.uk/government/consultations/standard-essential-patents-and-innovation-call-for-views/standard-essential-patents-and-innovation-call-for-views (last visited on Jan. 25, 2022). The UK notice expressly recognizes the need to consider global developments for SEP licensing. The European Union likewise plans to broadly solicit views on possible activity regarding SEP markets. *See* https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13109-Intellectual-property-new-framework-for-standard-essential-patents_en (last visited on Jan. 25, 2022).

[19] *See, e.g.*, Andrei Iancu & David J. Kappos, *Biden Administration Should Preserve Strong Patent Protection for Standardized Technology* (Nov. 9, 2021), available at https://www.csis.org/analysis/biden-administration-should-preserve-strong-patent-protection-standardized-technology (last visited Jan. 26, 2022).

Conclusion

We support efforts to improve and protect the standards-setting process, including encouraging good-faith license negotiations. Effective standards practice maximizes the benefits that SEPs bring to American companies, consumers, and our collective national interests. We believe that the balanced posture taken by the existing 2019 Policy Statement fosters the predictability and clarity needed to achieve these goals. The policy changes implemented by the 2021 Draft Revision threaten our ability to realize these benefits—it will harm U.S. interests by eliminating valuable statutory remedies from patent owners and encouraging hold-out by foreign and domestic implementers. However, we stand ready to consider via a meaningful process whether, and what, changes should be made to existing policy to improve standards activity. This process should include input from Senate-confirmed leadership at the relevant agencies, and the valuable and varied perspectives of key stakeholders, to ensure that any changes advance the United States in the correct direction, domestically and globally. We appreciate your attention to this matter and welcome the opportunity to further discuss our concerns.

Sincerely,

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THOM TILLIS
United States Senator

MAZIE K. HIRONO
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