

Comments Submitted to U.S. Federal Trade Commission

Request for Comment – Patent Assertion Entities (Project No. P131203)

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I commend the Commission for proposing to collect further empirical data regarding the structure, practices and holdings of patent assertion entities (PAEs). Such data is likely to inform the policy debate concerning this contentious topic, and should become a valuable resource for industry, scholars and policymakers. I also commend the Commission for seeking information regarding PAE holdings of patents that are subject to licensing commitments (Request C.1.o), particularly commitments to grant licenses on terms that are “fair, reasonable and non-discriminatory” (FRAND) (Request C.1.o.5).

As you know, there are differing views regarding the “meaning” of FRAND, and what specific obligations FRAND commitments entail. These questions are now being litigated in the courts and debated at standards-development organizations around the world. But even without a precise or universally-recognized definition of FRAND, data regarding the acquisition, aggregation and licensing of FRAND-encumbered patents, as well as other patents as to which non-assertion, non-transfer and other commitments have been made, would be valuable both to industry and policymakers. I refer to such patents collectively as “pledged patents”.

The ultimate market effect of PAE aggregation of pledged patents is not known, though different theories have been proposed. For example, some have expressed concern that PAEs that aggregate pledged patents may obtain significant control over key industry standards and other technologies covered by such patents, while having little incentive to offer terms that are reasonable, or to honor FRAND commitments made by previous patent holders. Such behavior could impair the rapid or widespread adoption of new and innovative technologies. On the other hand, it is also possible that the aggregation of FRAND-encumbered patents could help to overcome patent stacking issues that have been cited for years in industries characterized by numerous uncoordinated patent holders, much as patent pools and collective rights organizations have done in other sectors. While the ultimate market effect of aggregation of pledged patents by PAEs is still unknown, it is important to begin to collect data in this area.

The Commission’s requests for information concerning pledged patents are thus both timely and potentially valuable. However, the wording of these requests, as currently formulated, may be too narrow. In particular, Request C.1.o is limited to patent pledges made to “Standard-Setting Organizations” (SSOs), being defined as organizations that “develop[] standards”. While it is true that many patent pledges, including FRAND commitments, arise in the context of SSOs, many do not. There

is a large and growing number of patent pledges being made outside the SSO context, as documented in the public database that I oversee at the Program on Information Justice and Intellectual Property at American University Washington College of Law (<http://www.pijip.org/non-sdo-patent-commitments/>). To-date, we have identified 75 distinct patent pledges covering thousands of patents by some of the world's largest technology companies. These non-SSO pledges are characterized by a similar desire for interoperability and inter-vendor compatibility as SSO-based pledges. Such commitments can take the form of covenants not to sue, promises to license on royalty-free or FRAND terms, commitments not to transfer patents to PAEs, or clarifications of previous commitments that have been made. As an example of the latter, in February 2011 Microsoft, Google and Apple all released [public statements](#) clarifying their interpretations of prior FRAND commitments. These clarifying statements, which were not embodied in any written agreement or administrative order, were relied upon by the U.S. Department of Justice in approving the multi-billion dollar patent acquisitions proposed by each company.

One area in which non-SSO patent commitments are becoming increasingly prevalent is open source software. For example, in 2004-05, a handful of firms publicly [announced](#) that they would not assert patents against use of the open source Linux operating system. Some large patent holders also issued blanket assurances covering substantial portfolios of patents and products, including IBM's public commitment not to assert approximately 500 patents against open source software products, and Google's more recent "[Open Patent Non-Assertion Pledge](#)". Others, under the umbrella of the non-profit [Open Web Foundation](#) have made commitments to license a wide variety of software interfaces, tools and specifications on FRAND terms. Finally, some firms have made public pledges to enable compatibility with their own proprietary platforms. One such commitment is contained in Microsoft's well-known [Interoperability Principles](#) which state that Microsoft will license all patents covering its Open Protocols on reasonable and non-discriminatory terms, and at low royalty rates.

Although such commitments are not made as part of an SSO standard-setting process, they serve similar goals of ensuring interoperability and compatibility among technologies offered by different vendors. As such, they can efficiently clear the landscape of potential patent impediments to widespread adoption of common interoperability standards, technologies and protocols, producing welfare gains similar to those attributed to FRAND commitments made as to SSO-developed interoperability standards.

By the same token, the threat of patent hold-up that exists in the SSO context also exists when patent pledges are made outside of SSOs, as such pledges are often made in order to induce market wide adoption of common technology platforms and interoperability standards. As public promises to the market, we have argued that patent pledges should be enforceable under a "market reliance" theory (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2309023). The Commission has also suggested that deception regarding patents relevant to an industry standard may constitute an unfair method of competition in violation of Section 5 of the FTC Act. Such deception is not only possible outside of the SSO environment, but more likely than it is within the confines of an SSO. That is, in the absence of SSO structural safeguards (formal patent declarations, a public repository of essential patents, designated patent disclosure windows, etc.) it may be easier for an opportunistic patent holder to disavow its non-

SSO patent pledges, and less likely that affected implementers will be aware of the disavowed pledges. Accordingly, non-SSO patent pledges present heightened opportunity for patent hold-up of a nature as to which the Commission has previously expressed concern.

Based on these considerations, I recommend that the Commission broaden the scope of Request C.1.0 of its proposed study to cover all patents that are subject to public patent pledges, whether as to licensing, non-assertion, non-transfer or otherwise.