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Submitted via email (ATR.LPS.IPGuidelines@usdoj.gov)

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ACT | The App Association (The App Association) writes to provide input to U.S. Department of Justice and the Federal Trade Commission (DOJ/FTC) on proposed updates to the Antitrust Guidelines for the Licensing of Intellectual Property ("Draft Revised Guidance").[1]

I. Statement of Interest & Summary

The App Association represents more than 5,000 small- and medium-sized application development companies from across the United States and around the world, and is committed to preserving and promoting innovation generally as well as accelerating the growth of technology markets through robust standards development and a balanced intellectual property system. The App Association applauds DOJ/FTC for undertaking a public consultation on this important matter.

The App Association strongly supports DOJ/FTC's efforts to provide clarity on its antitrust enforcement policy with respect to the licensing of intellectual property rights to ensure the guidance is consistent with new case law. We are concerned, however, that the lack of reference to or inclusion in the Revised Draft Guidelines of any existing DOJ/FTC guidance on the abuse of fair, reasonable, and non-discriminatory (FRAND) commitments will be misinterpreted as a sign that such guidance is not important, or worse yet, no longer valid.

[1] U.S. Fed. Trade Comm'n & U.S. Dep't of Justice, *Antitrust Guidelines for the Licensing of Intellectual Property Proposed Update*, 2016. *Available at* https://www.justice.gov/atr/file/883941/download.

Since the *Antitrust Guidelines for the Licensing of Intellectual Property* were issued in 1995, the Agencies have provided significant guidance regarding SEPs and FRAND licensing commitments. Further, some standard setting organizations (SSOs) such as the Institute of Electrical and Electronics Engineers (IEEE) have, after much effort, successfully revised their intellectual property rights (IPR) policies to clarify the FRAND commitments they require from technology contributors in ways that are consistent with such guidance. As detailed below, we believe that the Agencies' guidance on the anti-competitive implications of breaches of FRAND commitments can increase competition by reducing IP abuse and deterring unnecessary and burdensome litigation.

More specifically, The App Association believes clarifications on the meaning of FRAND commitments are extremely beneficial to both SEP holders and standard implementers (in particular, small- and medium-sized entities (SMEs) that act in good faith and overwhelmingly do not have the resources to commit to extended licensing negotiations and related litigation), as well as consumers of the technologies. The App Association's members include thousands of SMEs that are both SEP holders and standards implementers, to which the negative effects of abusive licensing of SEPs can be particularly harmful. These SMEs, which include many software companies in the United States, do not have the resources to effectively deal with much larger enterprises holding numerous SEPs. Thus, they either incur financially debilitating litigation with no predictable outcome or they are forced to accept excessive royalty demands made by the SEP holders. In the worst case, if they cannot afford the litigation or the expensive SEP licenses, they may have to change their product market or abandon their business plans altogether. Patent licensing abuses thus pose a major threat to the competitiveness of any industry that relies on standards in its innovation cycle. For these reasons, the use of antitrust law to deter such abuses is necessary.

The convergence of computing and communication technologies will continue as a diverse array of industries come together to build the Internet of Things (IoT), an encompassing concept representing the increasing ability of everyday products and services, across every sector of the economy, to use the Internet to aggregate and communicate data collected through sensors. The IoT's seamless interconnectivity will be made possible by technological standards, like WiFi, LTE, Bluetooth, etcetera, which will grow in number and importance, bringing immense value to consumers by promoting interoperability while enabling healthy competition between innovators.

Unfortunately, a number of owners of FRAND-committed SEPs are flagrantly abusing their unique position by reneging on those promises with unfair, unreasonable, or discriminatory licensing practices. These practices, which the Agencies and other regulators in many jurisdictions have examined, threaten healthy competition generally and also impact the viability of new markets like the nascent IoT. The negative impacts on small businesses are only amplified because they can neither afford years of litigation to fight for reasonable royalties nor risk facing an injunction if they refuse a license that is not FRAND compliant.

Patent policies developed by SDOs today will directly impact the way Americans work, live, and play for decades to come. The importance of these issues to app developers and other emerging industries is why The App Association has launched the All Things FRAND (http://www.allthingsfrand.com/) project. The App Association encourages the Agencies to utilize All Things FRAND as a resource to better understand how regulators and courts around the world are defining FRAND.

SDOs vary widely in terms of their memberships, the industries and products they cover, and the procedures for establishing standards.[2] Each SDO will need the ability to tailor its intellectual property policy for its particular requirements and membership. Therefore the U.S. government should not prescribe detailed requirements that all SDOs must implement. At the same time, however, as evidenced by the judicial cases and regulatory guidance posted on www.allthingsfrand.com, basic principles underlie the FRAND commitment and serve to ensure that standard-setting is pro-competitive and the terms of SEP licenses are in fact reasonable, fair, and non-discriminatory. Ideally, an SDO's IPR policy that requires SEP owners to make a FRAND commitment would include all of the following principles that prevent patent "hold up" and anti-competitive conduct:[3]

- **Fair and Reasonable to All** – A holder of a SEP subject to a FRAND commitment must license such SEP on fair, reasonable, and non-discriminatory terms to all companies, organizations, and individuals who implement or wish to implement the standard.
- **Injunctions Available Only in Limited Circumstances** – Injunctions and other exclusionary remedies should not be sought by SEP holders or allowed except in limited circumstances. The implementer or licensee is always entitled to assert claims and defenses.
- **FRAND Promise Extends if Transferred** – If a FRAND-encumbered SEP is transferred, the FRAND commitments follow the SEP in that and all subsequent transfers.
- **No Forced Licensing** – While some licensees may wish to get broader licenses, the patent holder should not require implementers to take or grant licenses to a FRAND-encumbered SEP that is invalid, unenforceable, or not infringed, or a patent that is not essential to the standard.

[2] U.S. Fed. Trade Comm'n & U.S. Dep't of Justice, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition*, at 33-34, footnote 5 (2007), *available at* https://www.ftc.gov/sites/default/files/documents/reports/antitrust-enforcement-and-intellectual-propertyrights-promoting-innovation-and-competition-report.s.department-justice-and-federal-tradecommission/p040101promotinginnovationandcompetitionrpt0704.pdf.

[3] "Principles for Standard Essential Patents" About AllThingsFRAND.com (explaining the FRAND commitment requirements.) http://www.allthingsfrand.com/about/about-allthingsfrand.com/.

- **FRAND Royalties** – A reasonable rate for a valid, infringed, and enforceable FRAND-encumbered SEP should be based on several factors, including the value of the actual patented invention apart from its inclusion in the standard, which cannot be assessed in a vacuum that ignores the portion in which the SEP is substantially practiced or royalty rates from other SEPs are required to implement the standard.

We also note that a number of SDO IPR policies require SDO participants to disclose patents or patent applications that are or may be essential to a standard under development. Reasonable disclosure policies can help SDO participants evaluate whether technologies being considered for standardization are covered by patents. Disclosure policies should not, however, require participants to search their patent portfolios as such requirements can be overly burdensome and expensive, effectively deterring participation in an SDO. In addition, FRAND policies that do not necessarily require disclosure, but specify requirements for licensing commitments for contributed technology, can accomplish many, if not all, of the purposes of disclosure requirements.

II. **The Agencies' Draft Revised Guidelines Should Acknowledge the Existence of Extensive Guidance on SEPs**

Former Assistant Attorney General Christine Varney has explained that "clearer rules will allow for more informed participation and will enable participants to make more knowledgeable decisions regarding implementation of the standard. Clarity alone does not eliminate the possibility of hold-up…but it is a step in the right direction."[4] Since 1995, the Agencies have taken numerous steps to provide this clarity in the SEP context. We understand why the Agencies would be reluctant to repeat all of that guidance in the Revised Draft Guidelines, but we urge the Agencies to ensure that these developments are briefly acknowledged in the Revised Guidelines. This approach would prevent agencies in emerging antitrust regimes from concluding that the absence of any mention in the Revised Draft Guidelines of the extensive FRAND related guidance means that it did not raise to the level of other IP related guidance, or worse yet, that it is outdated and/or has lost its value.

[4] Christine A. Varney, Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice, Promoting Innovation Through Patent and Antitrust Law and Policy, Remarks as Prepared for the Joint Workshop of the U.S. Patent and Trademark Office, the Federal Trade Comm'n, and the Dep't of Justice on the Intersection of Patent Policy and Competition Policy: Implications for Promoting Innovation 8 (May 26, 2010), *Available at* http://www.atrnet.gov/subdocs/2010/260101.htm.

As a reminder, the FRAND related guidance includes, but is not limited to the following:

- In 2011, the U.S. Federal Trade Commission (FTC) issued a report entitled *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition*,[5] in which the FTC addresses the issue of a reasonable royalty for FRAND-encumbered SEPs and recommends that "[c]ourts should cap the royalty at the incremental value of the patented technology over alternatives available at the time the standard was chosen." The FTC explains that setting the royalty for a FRAND-encumbered SEP "based on the ex-ante value of the patented technology at the time the standard is chosen is necessary for consumers to benefit from competition among technologies to be incorporated into the standard – competition that the standard setting process itself otherwise displaces." The FTC also addresses the question of the appropriate royalty base in patent cases and recommends that "[c]ourts should identify as the appropriate base that which the parties would have chosen in the hypothetical negotiation as best suited for accurately valuing the invention. This may often be the smallest priceable component containing the invention." According to the FTC, "the practical difficulty of identifying a royalty rate that accurately reflects the invention's contribution to a much larger, complex product counsels toward choosing the smallest priceable component that incorporates the invention."

- The DOJ/FTC issued a report in 2007 entitled *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition*,[6] which discusses various way to minimize patent holdup, including SEP disclosure policies, FRAND undertakings, and *ex ante* disclosure of licensing terms.

- In 2012 Renata Hesse, the current leading attorney of the DOJ's Antitrust Division, provided important suggestions for SSOs to guard against SEP abuses including at least three of the aforementioned ACT principles.[7]

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[5] U.S. Fed. Trade Comm'n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* (Mar. 2011). *Available at* https://www.ftc.gov/sites/default/files/documents/reports/evolving-ip-marketplace-aligning-patent-notice-and-remedies-competition-report-federal-trade/110307patentreport.pdf.

[6] U.S. Fed. Trade Comm'n & U.S. Dep't of Justice, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (Apr. 2007). *Available at* https://www.justice.gov/sites/default/files/atr/legacy/2007/07/11/222655.pdf.

[7] Renata Hess, Deputy Assistant Attorney General, *Six 'Small' Proposals for SSOs Before Lunch*, Prepared for the ITU-T Patent Roundtable (October 10, 2012), *available at* https://www.justice.gov/atr/speech/six-small-proposals-ssos-lunch.

- The FTC issued a Decision and Order in 2013 accompanying its challenge to an injunction sought by Google's Motorola Mobility Division,[8] which sets forth in detail procedures that a declared SEP holder must undertake before it may seek an injunction or other exclusionary relief based on a SEP and makes clear that a potential licensee may challenge infringement, validity, and enforcement of a declared SEP before being ordered to pay a royalty.

- In January 2013, the DOJ and U.S. Patent & Trademark Office (USPTO) issued the *Policy Statement On Remedies For Standards-Essential Patents Subject To Voluntary F/RAND Commitments*,[9] which recognizes the harms of patent hold up and explains that FRAND commitments are designed as a solution to that problem that benefits both standard implementers and SEP holders. The policy statement reasons that FRAND commitments may be incompatible with injunctive relief: "A decision maker could conclude that the holder of a F/RAND-encumbered, standards-essential patent had attempted to use an exclusion order [a form of injunctive relief] to pressure an implementer of a standard to accept more onerous licensing terms than the patent holder would be entitled to receive consistent with the F/RAND commitment—in essence concluding that the patent holder had sought to reclaim some of its enhanced market power over firms that relied on the assurance that F/RAND-encumbered patents included in the standard would be available on reasonable licensing terms under the SDO's policy." However, injunctive relief may be appropriate in some circumstances, "such as where the putative licensee is unable or refuses to take a F/RAND license and is acting outside the scope of the patent holder's commitment to license on F/RAND term" or "is not subject to the jurisdiction of a court that could award damages."

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[8] F.T.C., *Motorola Mobility/Google*, Docket C-4410, (Decision of 23 July 2013). *Available at* https://www.ftc.gov/sites/default/files/documents/cases/2013/07/130724googlemotorolado.pdf.

[9] U.S. Dep't of Justice & U.S. Pat. & Trademark Off., *Policy Statement On Remedies For Standards-Essential Patents Subject To Voluntary F/RAND Commitments* (Jan. 8 2013). *Available at* https://www.justice.gov/sites/default/files/atr/legacy/2014/09/18/290994.pdf

- The DOJ issued a detailed response in February 2015 to a "Business Review Letter" request from the IEEE seeking guidance on its updated patent policy.[10] The DOJ's response addressed several important aspects of SEP licensing, including injunctive relief, reasonable royalty rates, availability of FRAND licenses to standard implementers at all levels of the production chain, and reciprocal licenses. DOJ found the IEEE revised patent policy discussed earlier to be consistent with U.S. law.

  In response to DOJ's calls for more clarity, IEEE recently revised its patent policy to clarify the required FRAND Commitments.[11] IEEE's revised patent policy incorporates many of the principles we listed above and those which DOJ suggested SSOs adopt.

In summary, the Agencies have recognized, and taken significant action to address, the crucial role of standards, SEPs, and FRAND obligations since the mid-1990's when the *Antitrust Guidelines for the Licensing of Intellectual Property* were last revised. We encourage the Agencies to briefly reference in its Draft Revised Guidelines the existing policy guidance related to SEPs for the benefit of those who will be relying on this document. A complete omission of SEP-related developments in the Revised Guidelines may introduce uncertainty as to the effect of the existing work done by the Agencies on these important issues.

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[10] U.S. Dep't of Justice, *Business Review Letter* (Feb. 2015) *Available at* https://www.justice.gov/sites/default/files/atr/legacy/2015/02/02/311470.pdf.

[11] Bd. of Governors of the Inst. of Elec. & Elec, Eng'rs, "IEEE-SA Standards Board Bylaws", IEEE Patent Policy (Feb. 2015). *Available at* http://standards.ieee.org/develop/policies/bylaws/approved-changes.pdf.

III. Conclusion

The App Association applauds the Agencies' undertaking of a revision of the *Antitrust Guidelines for the Licensing of Intellectual Property*. Since these guidelines were last updated in 1995, the Agencies have done much to address the role of standards, SEPs, and FRAND obligations in this context. We therefore urge the Agencies to incorporate these developments into the Revised Guidelines before finalizing them.

The App Association looks forward to helping the Agencies on this critical project. Please do not hesitate to contact us with any questions.

Sincerely,

[REDACTED]

Morgan Reed
Executive Director
ACT | The App Association