



The Alliance of U.S. Startups and Inventors for Jobs (“USIJ”) responds herein to the invitation dated December 6, 2021 (“Invitation”) to submit public comments regarding a newly released draft policy statement (“2021 Draft”) concerning licensing negotiations and remedies for standards-essential patents (“SEPs”). The 2021 Draft was published jointly by the Antitrust Division of the Department of Justice (“DOJ”), United States Patent and Trademark Office (“PTO”), and National Institute of Standards and Technology (“NIST”). USIJ is pleased to have an opportunity to be heard on the latest draft of the proposed “policy statement,” which we note will be the third iteration since 2013 of an advisory statement to courts and other tribunals making remedy determinations for infringement of SEPs subject to a voluntary commitment to provide access to patented technology on fair, reasonable, and nondiscriminatory (“FRAND”) terms.

### **Interest of USIJ.**

USIJ is an association comprising inventors, startups, venture capital investors, entrepreneurs and supporters, whose efforts to bring new companies and new technologies into being are entirely dependent upon a reliable system of patent protection. USIJ was formed in 2014 to help foster the need for strong and enforceable patents and to promote investment and innovation in patent-intensive industries that are critical to U.S. economic leadership. Among its principal activities, USIJ monitors decisions of the U.S. Supreme Court, the Federal Circuit and the Patent Trial & Appeal Board and makes regular reports to our constituents, participates in conferences that promote the interests of inventors, entrepreneurs and investors, and files amicus briefs and other comments in appropriate situations to voice the needs of our constituents. Its website is [www.usij.org](http://www.usij.org).

### **Overview of USIJ Response.**

Startups, inventors, entrepreneurs and their investors are major contributors to our nation’s economy, because these are entities that bring innovation and continuous renewal to the established order by challenging entrenched incumbents and traditional ways of thinking. The organizational thread that connects most innovation efforts is a willingness to take substantial risks and the vision and zeal to follow through that few larger companies display. In this respect, the U.S. patent system is an essential component of innovation and the development of new technologies, because the development process may require years of expensive R&D without

any offsetting revenue to compensate the entrepreneurs and investors.<sup>1</sup> A reliable and predictable patent system that protects work being done today from wrongful appropriation after its technical or economic feasibility is established is absolutely critical to justify investments in these new technologies and products that have long development cycles. This is true whether the development work leads directly to new products or services or creates market value through incorporation in a standard.

When the foundational principles of patent protection are unpredictable and fluid, depending upon which Administration is in the White House, this undermines confidence in the integrity and reliability of issued patents and the incentives of both entrepreneurs and their investors to make the long-term, high-risk commitments necessary for genuine breakthrough developments. This, we believe, is one of the primary vices of the 2021 Draft. The 2021 Draft, if adopted in its present form by the three agencies proposing it, will be the third in a series of statements that began with one issued January 8, 2013 entitled “Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments.” (“2013 Statement”).<sup>2</sup> This was followed by a significant modification in a statement bearing the same title, dated December 19, 2019, that replaced the 2013 Statement (“2019 Statement”).<sup>3</sup> The 2021 Draft now proposes to

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<sup>1</sup> Exemplary is the mRNA vaccine for SARS-Cov-2 (“Covid 19”) that currently is being manufactured and sold by Pfizer. That vaccine was developed after years of R&D by a small German company called BioNTech funded largely by risk-tolerant investors. A similar version of the same breakthrough technology was developed by Moderna, an American company, which also sells an mRNA vaccine. As with the BioNTech saga, Moderna’s vaccine was the product of years of high-risk R&D research funded by venture capital investors. *See, e.g.*, Zuckerman, “A Shot to Save the World,” Penguin Random House (2021). Countless new technologies reach the market through a similarly extended development process.

The full contribution of these small companies is sometimes masked because large companies often acquire smaller more innovative ones and incorporate new technologies into their own products, which are then sold under the trademarks of the larger company. In other situations, highly innovative small companies enter into licensing arrangements for manufacturing and distribution by larger ones, that then market the new technologies as their own. It is no secret that many of the largest corporations in the digital electronics space maintain their siloed monopolies and near-monopolies through intensive lobbying and campaign contributions for weakening the U.S. patent system and through the acquisition of potential competitors that develop better and more useful technologies.

<sup>2</sup> The 2013 Statement was put forward by DOJ and USPTO and did not include NIST as a signatory. The 2019 statement included all three agencies that would be signatories on the current 2021 Draft.

<sup>3</sup> On March 13, 2019, USIJ submitted a letter to then Attorney General William P. Barr and then Secretary of Commerce Wilbur Ross expressing support for the withdrawal by DOJ of a 2013 joint statement issued by DOJ and the PTO entitled “Policy Statement on Remedies for Standards Essential Patents Subject to Voluntary F/RAND Commitments.” The 2013 version of the policy statement, in our view, was seriously flawed in many respects, and we applauded its elimination. A copy of the USIJ letter can be found at

replace the 2019 Statement, offering the current Administration’s spin on the same subject matter while adding some bureaucratic suggestions of its own as to how the parties to a FRAND negotiation should conduct their businesses. Given the critical importance of predictable, reliable rules that define the rights of IP owners, the publication of three iterations of a policy statement in nine years being advanced by three different Administrations undermines the significance of IP in general and patents in particular in standards development and otherwise.<sup>4</sup> As discussed below, it does not matter that there may be structural similarities in all three of the statements; they are plainly contradictory with one another on at least two key points – namely, the suggestion of potential antitrust implications of patent owners’ asking courts or the International Trade Commission to issue injunctions and/or exclusion orders, and the way these agencies think that applications for injunctions should be approached by courts and the ITC. Regrettably, this new statement comes at a time when the U.S. sorely needs a strong and reliable patent strategy.

A particularly troublesome aspect of the 2021 Draft is the lack of any discussion of the impact that yet another IP policy statement about injunctions and exclusion orders is likely to have on international competition and the relative advantages that other countries provide to patents owned by their own companies as contrasted with what is done in our country.<sup>5</sup> Our nation’s predominance in the development of science and technology was, for more than a hundred years, unassailable until a few years ago, when other nations – most notably China – began to target particular technologies in which its own companies could become dominant.<sup>6</sup> There is little

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<https://static1.squarespace.com/static/5746149f86db43995675b6bb/t/61fbfef825658961c4201655/1643904761922/USIJ+DOJ+-+DOC+SEP+Letter1.pdf> .

<sup>4</sup> The Executive Order dated July 9, 2021, encourages the Secretary of Commerce and the Attorney General to consider whether the 2019 Statement should be revised (EO, §5(d). That the 2021 Draft is being presented at a time when two of the three agencies do not yet have a confirmed Director in place is puzzling and troublesome. The need for haste in promulgating the 2021 Draft is not readily apparent, and the draft itself does not mention any urgent need for immediate confirmation. USIJ submits that any formal approval of yet another policy statement should await the confirmation of Directors for both NIST and USPTO and with sufficient time for each to form views of her own.

<sup>5</sup> U.S. practices related to the granting of injunctions as remedies for patent infringement is decidedly different from the practices in other countries, most notably China and Germany. The 2021 Draft does not mention or refer to these differences or their impact on competition at the international level.

<sup>6</sup> China’s 14<sup>th</sup> Five Year Plan for National Informatization, published in December 2021, is a 59 page document describing – in detail – a well-considered plan through which that country plans to dominate the digital technologies of the future, *i.e.*, “scalable technological innovation in critical and advanced areas such as artificial intelligence, quantum information, integrated circuits, aerial information, neuromorphic computing, neural chips, DNA storage, brain-machine interfaces, digital twinning, novel non-volatile storage, silicon electrons, non-silicon semiconductors, etc.” (p. 25). <https://digichina.stanford.edu/wp-content/uploads/2022/01/DigiChina-14th-Five-Year-Plan-for-National-Informatization.pdf>. This

question today that China is succeeding in this effort and already has displaced the United States in some strategically critical technologies.<sup>7</sup> China's IP practices have a great deal to do with that country's growing prowess in a number of critical strategic technologies. Chinese companies are applying for patents at home and in other countries at a rate that far exceeds any other country in the world and the government of the PRC has already made clear that it plans to use its proprietary IP in numerous ways that further its own mercantilist and technological objectives. And of course, SEPs are an important piece of the Chinese plan, precisely because they may be "essential" to design and manufacture standard-compliant products.<sup>8</sup> Exemplary is China's use of antisuit injunctions to make certain that important determinations of FRAND royalties will be carried out by a Chinese tribunal and not the home country of the innovator.<sup>9</sup> USIJ submits that any formal statements of U.S. IP policies regarding SEPs should at least reflect an awareness of how other countries are addressing the issue of SEP policies, particularly injunctive type relief. The absence of any such discussion in the 2021 Draft, in our view, is disappointing and turns a blind eye to the long-term implications of such policies.

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document should be a wake-up call for those in charge of this nation's patent policy, who give little or no indication that they even care about what China does.

China is already on track to achieve at least some of its key strategic objectives. *See, e.g.*, Statement of Bonnie S. Glaser, Director of China Power Project, before the Senate Small Business and Entrepreneurship Committee, entitled "Made in China 2025 and the Future of American Industry;" Susan Crawford, "China Will Likely Corner the 5G Market—and the US Has No Plan: China is on track to deploy high-capacity fiber-optic cable across much of Eurasia and lock out American companies. The US sorely needs a way to compete." *Wired*, 2/28/2019.

<sup>7</sup> Earlier this year, for example, the National Security Commission on Artificial Intelligence issued its report on, *inter alia*, the preparedness of our country to compete on a global basis with our most important competitor nations. The report includes the following cautionary observations:

"China is both leveraging and exploiting intellectual property (IP) policies as a critical tool within its national strategies for emerging technologies ... The United States has failed to similarly recognize the importance of IP in securing its own national security, economic interests, and technology competitiveness. ... China is poised to 'fill the void' left by weakened U.S. IP protections, particularly for patents, as the U.S. has lost its comparative advantage in securing stable and effective property rights in new technological innovation." (Final Report of NSCAI, published March 1, 2021, p. 201)

<sup>8</sup> See, Mark Cohen, China's Role in Global SEP Strategy, ("Chinese courts are actively seeking to become a destination for setting global licensing rates for standard-essential patents." <http://www.chinaipr.com/2021/12/13>. (p. 2).

<sup>9</sup> *See, e.g.*, Tsang and Lee, "The Ping-Pong Olympics in Antisuit Injunction in FRAND." Paper is available at SSRN: <https://link.edgepilot.com/s/2040d4d6/6Wncn7RASEuTfGBYaociSQ?u=https://ssrn.com/abstract=3968645>.

## The 2021 Draft.

At bottom, USIJ believes that there is little need for a policy statement of any kind from these agencies with respect to SEP licensing negotiations and/or to remedies to be applied by courts and other tribunals arising from the enforcement of SEPs. These statements are not binding on the parties to a FRAND negotiation. They are not legal precedents that are binding on the courts or the agencies charged with the adjudication of disputes. They are not directives to private SDOs with respect to rules that govern FRAND commitments. In reality, the 2021 Draft more closely resembles an “amicus brief” than a statement of law, and is directed to an abstract set of facts, devoid of specific application to real world behavior by real world parties, but with the shadow of potential antitrust enforcement hovering in the background. The best that can be said of all these statements is that each one sets forth one view at one point in time as to what *should be* the governing legal principles with respect to negotiating and resolving FRAND royalties for the use of SEPs. Because these policy statements carry the imprimatur of official government action, however, they risk confusing all participants in standards development and the courts and agencies charged with resolving disputes when negotiations over royalties fail to end with a license.

This is a key point for smaller companies that participate in contributing their technology to a standard and seek to license it others. Such companies, because of the high cost of lawyers and litigation, are often at an inherent disadvantage in negotiating with larger companies over patent licenses, and without the potential of injunctive or exclusionary relief have little or no bargaining power.<sup>10</sup> Further, because one of the agencies signing the statements is the Antitrust Division of the U. S. Department of Justice, the subtle suggestion of an antitrust foundation for what is set forth is susceptible of being distorted and used improperly during contract negotiations or litigation to the detriment of the one party or the other.<sup>11</sup> Additionally, the policy statements are

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<sup>10</sup> The recent efforts of consumer electronics pioneer Sonos (holder of over 750 patents) to enforce its patents in federal district court and at the ITC against Google is exemplary. After years of systemic infringement of its core patented technologies, Sonos was forced to sue Google for infringing approximately 100 patents and to seek a corresponding order from the ITC excluding Google from importing products that infringe these patents. On January 6, 2022 the ITC ruled that Google infringed 5 smart speaker patents and issued an exclusion order against the infringing products. This is a positive outcome for Sonos, but few small companies can muster the resources necessary to sustain a similar case. A far more efficient economic outcome would have been for Google to respect Sonos’ patented technology and take an appropriate license, and/or simply invent and design its own speaker products.

<sup>11</sup> In *Federal Trade Commission v. Qualcomm, Inc.*, 969 F.3d 974 (9th Cir. 2020), the FTC challenged – on antitrust grounds – Qualcomm’s licensing arrangements wherein all of its licensing of both SEPs and non-SEPs took place solely at the handset maker or “OEM” level. The FTC asserted that Qualcomm’s refusal to grant patent licenses to other chip makers, choosing instead to include “have made” authorizations in its licenses to OEMs, violated both Qualcomm’s FRAND commitments as well as the Sherman Act. The Ninth Circuit reversed the trial court’s ruling in favor of the FTC. First, the appellate court held that there was no lessening of competition from the practice, because the arrangement did not disadvantage any chip maker

likely to be viewed by other countries, not familiar with the intricacies of U.S. competition law, as statements that can find use in their interpretation of both U.S. law and in dealing with their own antitrust regimes.

### **USIJ Views on Specific Questions Posited by the Invitation.**

1. Should the 2019 Policy Statement on Remedies for Standards-Essential Patents Subject to Voluntary F/RAND Commitments be revised?

Subject to our view that malleable iterations of an SEP policy statement undermine the societal benefits of legal protection of IP, and therefore should be withdrawn in their entirety, if the Administration nevertheless decides to retain any such statement, it should be the one promulgated by DOJ in 2019. The 2019 statement is well balanced between the interests of innovators and implementers and accurately describes federal law relevant to enforcement of SEPs, citing to relevant cases. The 2019 statement points out correctly that, as a matter of U.S. law, there are no special rules governing remedies applicable to an SEP, which should be treated the same as any other patent(s). The 2019 statement was also clear that neither mere disputes over the terms of a FRAND license nor seeking any particular form of remedy for infringement raise an antitrust concern. The 2019 statement was made necessary because the 2013 statement was heavily biased to favor implementers, particularly large digital technology companies, over those companies that actually invent the new technology required for the implementation of a new standard. The 2013 statement was also misunderstood as a statement of antitrust enforcement policy – which it is not. The 2021 Draft is similarly biased and easily misunderstood.

The 2019 statement made clear that under U.S. law traditional patent remedies, including injunctive relief, are available to owners of SEPs if they can meet the stringent legal requirements for such remedies.<sup>12</sup> The 2019 Statement envisions that courts and the ITC will determine, based on the facts and law, whether patent owners should be awarded injunctive relief that Congress created. The 2021 Draft, by contrast, would limit these statutory rights by suggesting that a patent owner is not acting in “good faith” if it decides to seek an injunction or exclusion order without regard to the circumstances that may have led to such decision. The

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that chose to make chips in competition with Qualcomm. All chip makers, including Qualcomm, were free to sell to licensed OEMs. Most importantly, the court held that antitrust law does not require compliance with a FRAND agreement; any such compliance is a private contractual matter between the SDO, the patent owner and the other participants in the SDO process. The FTC chose not to appeal the decision to the Supreme Court, which should lay to rest any continuing suggestion that the Sherman Act compels compliance with FRAND commitments, particularly since DOJ filed an amicus brief supporting Qualcomm.

<sup>12</sup> *E.g.*, “Consistent with the prevailing law and depending on the facts and forum, the remedies that may apply in a given patent case include injunctive relief, reasonable royalties, lost profits, enhanced damages for willful infringement, and exclusion orders issued by the U.S. International Trade Commission. These remedies are equally available in patent litigation involving standards-essential patents.” (2019 Statement, p. 5 (footnotes not included)).

2021 Draft states categorically that seeking injunctive relief instead of engaging in "good faith negotiation" is "inconsistent with the goals of the F/RAND commitment."<sup>13</sup> This cannot be the law governing every imaginable negotiation of a royalty, because it is all too easy for a potential licensee to fake its willingness to take a license, when in fact it actually has no intention of doing so. Such a rule would, however, if adopted as our country's official IP policy, embolden implementers (in particular large digital companies) to rely on such pretensions instead of paying for their use of patented technology. In situations with potentially tens or hundreds of millions of dollars at stake when an extremely valuable and innovative standard essential technology is considered, it is quite easy to imagine that some implementers would simply adopt a practice of endless "negotiation" with little interest in an agreement knowing that their market share is growing and believing that an injunction is unlikely or impossible.

The 2021 Draft cites to the same established case law as the 2019 Statement, but adds commentary that twists what courts have actually held. For example, the 2021 Draft states correctly that courts have not adopted a unique set of legal rules for SEPs subject to a FRAND commitment, although such a commitment is one fact that courts and other tribunals should take into account in issuing a remedy. As far as it goes, that is an accurate statement of the law. But the Draft goes on to add that "as a general matter, consistent with judicially articulated considerations, monetary remedies will usually be adequate to fully compensate a SEP holder for infringement,"<sup>14</sup> citing the Federal Circuit's decision in *Apple v. Motorola*.<sup>15</sup> The Federal Circuit did not hold that monetary remedies "will usually be adequate;" instead it held that that courts should apply the *eBay* factors, and that while a patent owner who has made a FRAND commitment "may have difficulty" establishing irreparable harm ... an injunction may be justified where an infringer unilaterally refuses a FRAND royalty or unreasonably delays negotiation to the same effect."<sup>16</sup> Similarly, again citing *Apple v. Motorola*, the 2021 Draft goes beyond what the appellate court actually held by adding the phrase that where there was a

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<sup>13</sup> The 2021 Draft states "Where a potential licensee is willing to license and is able to compensate a SEP holder for past infringement and future use of SEPs subject to a voluntary F/RAND commitment, seeking injunctive relief in lieu of good-faith negotiation is inconsistent with the goals of the F/RAND commitment." (p. 4).

<sup>14</sup> 2021 Draft (pp. 7-8) states "When good-faith negotiations fail ... the existence of F/RAND or similar commitments and the individual circumstances of licensing negotiations between patent holders and potential licensees will affect the appropriate remedy for infringement of a valid and enforceable SEP. Relevant considerations are enumerated in *eBay Inc. v. MercExchange, L.L.C.*, 35 U.S.C §§ 283-284, or 19 U.S.C. § 1337... Rather than adopting a unique set of legal rules for SEPs subject to F/RAND commitments, courts and other neutral decision makers take into account the F/RAND commitment and other relevant facts or a particular case. As a general matter, consistent with judicially articulated considerations, monetary remedies will usually be adequate to fully compensate a SEP holder for infringement."

<sup>15</sup> Draft, p. 8, n.18 (citing *Apple Inc. v Motorola, Inc.* 757 F. 3d 1286, 1332 (Fed. Cir. 2014)).

<sup>16</sup> *Apple*, 757 F.3d at 1332.

FRAND commitment, the *eBay* factors “generally militate against an injunction.”<sup>17</sup> As noted above, that is not what the court said. The 2021 Draft would allow an injunction only where a potential licensee “is unwilling or unable to enter into a F/RAND license;” that concession is useless where the infringer wants simply to draw out negotiations while it continues to harvest the profits from infringement, safe in the knowledge that it can always pay a FRAND royalty anytime this strategy fails to work to its benefit. In reality, there are far too many – literally countless – situations in which putative defendants can conduct themselves in ways that warrant the issuance of injunctions and exclusion orders for the unlicensed practice of patents owned by another company. If existing law so provides, such orders are warranted and government agencies distort the bargaining process with policy statements like the one we are addressing.

6. Are small business owners and small inventors impacted by perceived licensing inefficiencies involving SEPs? If so, how can licensing be made more efficient and transparent for small businesses and small inventors that either own, or seek to license, SEPs?

7. Will the licensing considerations set forth in the draft revised Statement promote a useful framework for good faith F/RAND licensing negotiations? In what ways could the framework be improved? How can any framework for good-faith negotiations, and this framework in particular, better support the intellectual property rights policies of standards-setting organizations?

USIJ’s only comments on the remaining questions in the Invitation are with respect to the so-called “framework” for license negotiations set forth in the 2021 Draft. The concept can be found throughout the entire draft, but the discussion on pages 4 through 6 is illustrative. There, the Draft purports to tell potential licensors what information to provide to licenses and potential licensees what information to request and how to respond. This discussion is accompanied by platitudinous statements about the overall benefits of standard setting and good faith discussions. For a government agency to provide private parties with a checklist for negotiating with one another is sophomoric, at best, and pointless.

Company managements that have participated in SDO activities are not naïve nor would they have difficulty asking questions relevant their specific situations and needs. There is no reason for government agencies to be giving advice to private parties and their lawyers on how they should negotiate license agreements and what actions constitute the attributes of “good faith” negotiations. The shadowy overhang of governmental action complicates the discussion unnecessarily. Most of the companies that work on standards development have complex relationships with many or most of the other companies pursuing the same outcomes. Some negotiations with one company may take place after many other companies have already licensed the same patents at rates accepted by the bulk of the industry as a FRAND rate, a fact that should carry considerable weight with both sides in subsequent negotiations. Companies

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<sup>17</sup> Draft, p. 9.

owning patent portfolios that include SEPs (both large and small companies) develop skills and strategies for negotiating licenses, often from the dual perspective of both licensor on some occasions and licensee on others. Individual negotiating strategies may differ widely, but all such efforts are presumptively good faith efforts on both sides until one side or the other demonstrates to the contrary. In short, there are simply too many considerations that may enter into the arms-length discussions of a license agreement to create a government-sponsored “checklist” for assessing what is or is not good faith.

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Respectfully submitted,

Alliance for U.S. Startups and Inventors for Jobs

Robert P. Taylor  
Senior Counsel